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ECONOMIC PARTNERSHIP AGREEMENTS: A PRO-DEVELOPMENT TOOL?

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“(…) Wake up world
Wake up and stop sleeping
Wake up Africa
Wake up and stop blaming
Open your eyes”

NNEKA (Africans)

ABSTRACT

Economic Partnership Agreements (EPAs) put an end to the preferential non-reciprocal commercial treatment from the European Union (EU) to African Caribbean and Pacific (ACP) countries, in force since 1975 and until December 2007 (the deadline for EPAs deals). Negotiations are being challenging as only a small number of countries have closed full EPAs with EU by now, on the grounds that EPAs are missing their development goal. This dissertation intends to analyse EPAs negotiation round, evaluate to which extend the agreements are delivering on their promise to be pro-development tools for ACP countries, and access ways in which this delivery can be fostered.

Key Words: Economic Partnership Agreements, Economic and Social Development, Aid for Trade, Non-tariff Barriers, Free Trade, Protectionism

RESUMO

Os Acordos de Parceira Económica (APEs) encerram um período alargado de tratamento comercial preferencial e não-recíproco da União Europeia (UE) aos países de África, Caraíbas e Pacífico (ACP), vigente entre 1975 e Dezembro 2007 (data final para conclusão dos APEs). O processo negocial tem-se revelado difícil e apenas um reduzido número de países concluiu APEs totais à data, invocando que os referidos acordos descuram os objectivos de desenvolvimento a que se haviam proposto. Assim sendo, esta dissertação propõe-se analisar os processos de negociação em curso, avaliar em que medida os APEs constituem instrumentos que visam o desenvolvimento dos países ACP, e encontrar formas de potenciar ou calibrar os APEs como efectivos instrumentos pro-desenvolvimento.

Palavras Chave: Acordos de Parceira Económica, Desenvolvimento Económico e Social, Ajuda ao Comércio, Barreiras não tarifárias, Comércio Livre, Proteccionismo

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ABBREVIATIONS AND ACRONYMS

African, Caribbean and Pacific	(ACP)
African Growth and Opportunity Act	(AGOA)
AGOA Special Rule	(AGOA SR)
Aid-for-Trade	(AfT)
ASEAN Free Trade Area	(AFTA)
Association of Southeast Asian Nations	(ASEAN)
Botswana, Lesotho, Namibia, Swaziland	(BLNS)
Caribbean Community	(CARICOM)
Caribbean Forum of African, Caribbean and Pacific States	(CARIFORUM)
Central Africa	(CEMAC)
Common External Tariff	(CET)
Common Market of Eastern and Southern Africa	(COMESA)
Country or Regional Strategy Papers	(CSPs/RSPs)
Democratic Republic of Congo	(DRC)
East African Community	(EAC)
Eastern and Southern Africa	(ESA)
Economic Commission for Africa	(ECA)
Economic Community of West African States	(ECOWAS)
Economic Partnership Agreements	(EPA)
EU – the Trade, Development and Co-operation Agreement	(TDCA)
European Commission	(EC)
European Development Fund	(EDF)
European Union	(EU)
European's Union's Common Agricultural Policy	(CAP)
Everything But Arms	(EBA)
Food and Veterinary Office	(FVO).
Free Trade Area	(FTA)
General Affairs and External Relations Council	(GAERC)
General Agreement on Tariffs and Trade	(GATT)
Generalized System of Preferences	(GSP)
Gross Domestic Product	(GDP)
Hazard Analysis Critical Points	(HACCP)

Interim EPA	(IEPA)
International Trade Centre	(ITC)
Joint Orientation Document	(JOD)
Least Developed Countries	(LDC)
Maximum Residual Limits	(MRL)
Millennium Development Goals	(MDG)
Most Favoured Nation Principle	(MFNP)
Newly Industrialized Countries	(NICs)
Non Governmental Organisation	(NGO)
Now-Developed Countries	(NDC)
Official Development Assistance	(ODA)
Organisation for Economic Cooperation and Development	(OECD)
Preferential Trade Agreements	(PTA)
Purchasing Power Parity	(PPP)
Regional Economic Communities	(REC)
Research and Development	(R&D)
Rules of Origin	(RoO)
Sanitary and Phytosanitary Standards	(SPS)
Southern Africa Development Community	(SADC)
Structural and Adjustment Programmes	(SAP)
Sub-Sahara Africa	(SSA)
Technical Barriers to Trade Agreement	(TBT)
United Nations Conference on Trade and Development	(UNCTAD)
United States of America	(USA)
Value-Added Tax	(VAT)
West Africa EPA development programme	(PAPED)
World Trade Organization	(WTO)

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INTRODUCTION

Economic Partnership Agreements (EPAs) end up with the preferential non-reciprocal commercial treatment from the European Union (EU) to African, Caribbean and Pacific (ACP) countries, in force since 1975. The negotiation process started in September 2002 and aimed to be concluded by December 2007. However, only a small number of countries closed full deals by this time on grounds that EPAs are falling short of their development promise. Most ACP countries are trading with the EU on the basis of interim EPA agreements (IEPA).

EPAs hold great importance to ACP countries as they propose a level of trade liberalisation these countries might not be prepared to face. The agreements under negotiation intend to open ACP countries' markets to EU, putting ACP countries' goods in direct competition with those imported from the EU. However, the differences of development and size among the two regions are notorious, reinforcing the argument that ACP countries aren't prepared to withstand competition and the related harmful consequences for agriculture, industrial activity and employment. Implications at the fiscal revenue front are one of the issues to be addressed because of the constraints it might raise on public investment on health and education areas, but so are the implications for the ACP countries' (already troubled) regional integration process. Furthermore EPAs negotiations are involving a wide scope of issues, which goes beyond World Trade Organization's (WTO) agenda.

Taking into account all these elements, this dissertation intends to analyse EPAs in order to evaluate whether, or to which extend, these agreements are delivering on their development promise. It has also the purpose of assessing ways in which such delivery could be fostered. As such, the premise that is being tested is that EPAs are a pro-development tool.

In order to test it, this work will use information on the update and content of EPAs negotiations, academic literature produced on this topic but also research produced by several international organisations as well as the Non Governmental Organisations

(NGO). The major purpose is to analyse and list the arguments presented by the several parties involved and based on that information reach a conclusion. Given the difficulties in collecting significant and regular statistical data aggregating ACP countries, this dissertation works with ACP countries aggregated data when available, but in most cases it either works with the Sub-Sahara Africa (SSA) group data or with statistics available for the African region.

The dissertation is divided in two parts, each with two chapters. Chapter I looks into ACP countries' competitive position, whilst Chapter II studies EPAs' origin, scope and timetable to then analyse the implications these agreements portend for the African regional integration process. In the second part, Chapter III articulates EPAs negotiations with the WTO roundtable in order to access the implications the first might have on the second and Chapter IV analyses the relation between trade restrictiveness and development to then list the ways ACP countries should use to protect their interests on EPAs negotiations. It ends up with the primary conclusions.

1ST PART

CHAPTER I

ACP COUNTRIES' COMPETITIVE POSITION

ACP countries have benefited from preferential non-reciprocal trade treatment from EU since 1975 until December 2007, the deadline for Economic Partnership Agreements (EPAs) negotiations. This first Chapter identifies on Section 1 the major features that characterize ACP countries exports access to EU markets, which take expression on a reduction on custom duties and tariffs, but also on the prevalence of residual tariff barriers on sensitive products, of escalating custom duties, as well as on the significant climb on non tariff barriers respecting to sanitary and phytosanitary standards (SPS) and rules of origin (RoO) over recent years. It then focuses on the competition of imports in ACP countries' domestic markets and the little room of manoeuvre ACP countries have to deal with unfair competition coming from Europe, as well as on strong reliance of ACP Governments on import tax revenue (Section 2). After addressing these issues, Section 3 makes a reflection upon the structural constraints faced by ACP countries, outlining the importance of infrastructures to the development of the region, in particular due to its impact on trading and transport costs. On this latter point it analyses a working paper from World Bank, which studies the major trend of trade restrictiveness and emphasises the need to lower tariffs and transport costs in Africa in order to make the region more competitive.

1. Market Access of ACP Countries Exports to EU Markets

Generally ACP countries exports benefit from preferential non-reciprocal treatment in regard to their access to developed countries' markets. They have enjoyed from such facilities provided by EU, but other developed countries like Japan, the USA (United States of America) or Canada also hold Generalised System of Preferences (GPS) schemes towards the developing world. Furthermore, ACP countries have also taken advantage of the reduction of custom duties, which gained a stronger speed after the entry into force of the WTO agriculture agreement, back in 1995.

However, as Alpha et al. (2005:7-8) note, whilst it is possible to acknowledge the downward trend on customs duties over the past years, the move was not extendable to all products. Indeed so called sensitive products to the developed economies (a large part of which of great importance to ACP countries) have been excluded from GPS and, as a result, remain subject to high custom duties. The table below is quite elucidative how customs duties remained high for some products categories after the implementation of the Uruguay Round Agreements, pointing to the need of further improvement of access to developed countries' markets:

Table 1: Custom Duties in EU, Japan and USA Before and After the Implementation of the Uruguay Round Agreements

	EU before	EU after	Japan before	Japan after	US before	US after
Green Coffee	5	0	0	0	0	0
Cocoa	3	0	0	0	0	0
Fresh Tropical Products	9	5	17	4	7	5
Sugar	297	152	126	58	197	91
Wheat	170	82	240	152	6	4
Milky Products	289	178	489	326	144	93

Source: OCDE, MFN duties (cited in Alpha et al., 2005:8)

The EU is the largest importer of agricultural products coming from the developing world, which in its total exceed the combined group of countries comprised by the USA, Canada, Japan and Australia. EU has indeed improved market access to the developing world over the past years. Since the WTO was created, the growth rate of agricultural exports from LDC to EU has doubled, an evolution that reflects to a large extent the launch of the Everything But Arms (EBA) initiative back in 2001. In 2001 the EU adopted the EBA initiative, which offers duty-free and quota-free access for LDC exports except for sugar, rise and bananas which are subject to a phased elimination of quotas[1].

1.1. Residual Tariff Barriers over Exports

Nonetheless, residual tariff barriers continue to be imposed over some agricultural products, namely those labelled as sensitive by EU, i.e. that threaten the competitiveness of EU products and ACP countries are no exception. According to Alpha et al (2005:10) *"(...) the average level of residual tariff barriers applied to agricultural exports from ACP group (including LDCs) on the European market has been estimated at 5.3% on 98.1% of imports receiving preferential treatment. This estimate must be compared with that of countries under GSP (17.9% of protection on average on 19.8% of imports covered by the preferences system) and MFN (average protection rate of 20.7%) regimes."*

Residual tariff barriers can assume the form of *ad valorem* duties (a percentage of the product's price) or specific duties (amount in euros per unit of measure, i.e. per 100kg, per tonne, etc.). The Cotonou Agreement provided tax-free quotas, import ceilings and seasonal duties for some sensitive products coming from the ACP countries. This meant that up to a certain quota these agricultural products exported by ACP countries could face reduced or zero custom duties at the EU whilst benefiting from the higher and more stable European domestic price [2]. The same agreement allowed ACP countries to call for the registration of new agricultural products for purposes of tax and quota exemption, though the approval license was usually hard to get. All in all, though ACP

[1]. According to Oxfam (2000) the 48 LDC by the time of the launch of the initiative accounted for just 0.4% of World Trade, representing only 0,003% of EU imports.

[2] These happened to be true for the product protocols of sugar, bovine meat and bananas existing under Lomé Convention and which were reaffirmed at the Cotonou Agreement (protocol 3,4 and 5, respectively). (Alpha et All (2005:9).

countries benefit from preferential treatment from EU the fact is that some of its exports still have to face residual tariff barriers.

1.2. Escalating Custom Duties

Another important theme for ACP countries exports refers to custom duties escalation, which translates into the imposition of higher levels of duties on products holding a higher degree of processing. Though the exports of processed products from ACP countries to the EU market are not taxed, this changes whenever each of the higher value added products involved contain EU sensitive products on their composition. This happen to be the case of fresh and dried mangos exports to EU, which are duty-free, contrary to mangos conserved with sugar or even mango juice, which turn to be taxed at €15 per 100kg and €12.9 per 100kg, respectively[3]. LDCs are also taxed on tinned pineapples in the framework of access restrictions on sugar exports. The perpetuation of these escalating custom duties schemes is capping the development of ACP countries as confines them to primary products production specialisation, when there is wide consensus on the need of a migration towards the production of value added products (Alpha et al., 2005:11).

1.3. The Importance of Non Tariff Barriers: Rules of Origin and SPS

Trade relations between ACP countries and the developed world have been marked by a substantial reduction on the tariffs imposed by the advanced economies to their ACP counterparties, a trend which also extended to residual tariff barriers over the past years. Nonetheless, non tariff barriers respecting to sanitary and phytosanitary standards (SPS) and rules of origin (RoO) have climbed significantly, growing the structural and capacity limitations faced by ACP countries and consequently hurting their exports'

[3] PwC/GRET/Forum for Africa: Sustainability Impact Assessment (SIA) of the EU-ACP Economic Partnership Agreements. Phase 2. July 2005, cited in Alpha et al. (2005)

competitiveness (Alpha et al. 2005:7). Non-tariff barriers constitute a significant obstacle to ACP countries exports access to developed countries markets.

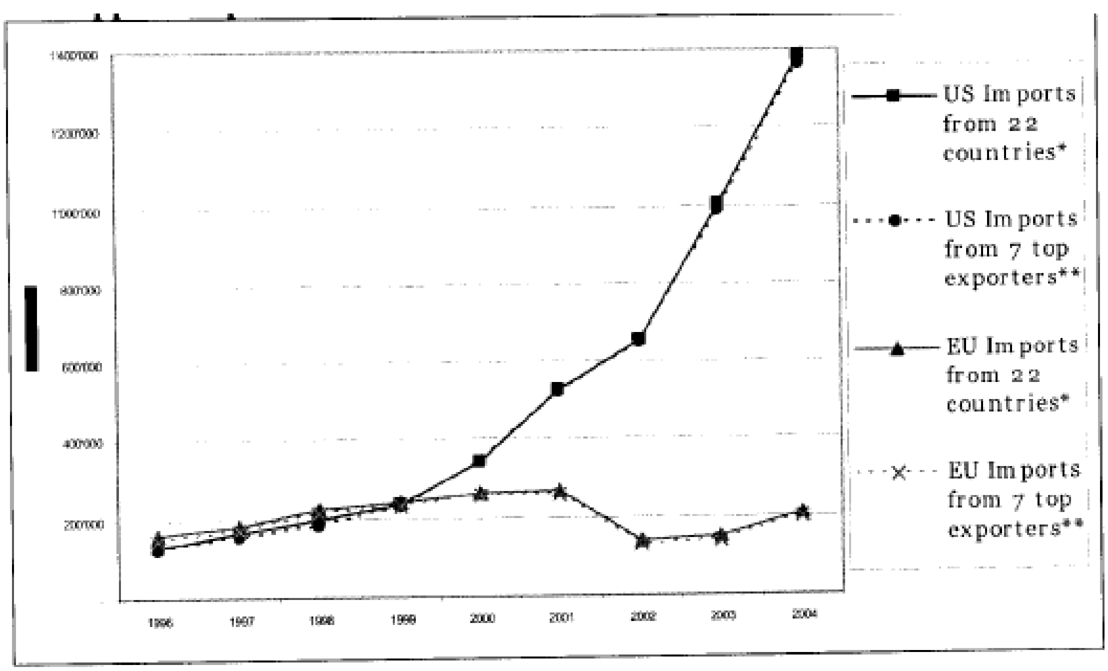
1.3.1. Rules of Origin (RoO)

RoO respect to aggregation rules and processing criteria a product must comply to get originating status. These are particularly important for countries whose exports are benefiting from preferential treatment. On those circumstances RoO are primarily intended to prevent trade deflection, i.e. preventing the country enjoying from lower tariffs from importing a certain product and re-exporting it at a profit; furthermore, it is intended to foster processing capacity in developing economies. However, when too demanding, RoO might be assessed as non tariff barriers. This is the case of LDC ACP countries, where the RoO of the EBA initiative are the same of the GSP and therefore stricter that those settled under the Cotonou agreement. The packaging of food exports might weight significantly in the cost of the final product, which if not complying with RoO it might be taxed, reducing therefore price competitiveness. Whilst it is important to prevent reexportation risks, RoO currently applied to LDC are too strict impeding these countries from benefiting from the EBA initiative.

EU's RoO were stricter when compared to the US, at least regarding the textile sector. The low-income African countries that benefit from preferential access for their apparel to both regions, in a much similar way, face up, however, far more demanding RoO rules at EU's preferential scheme in comparison to US's African Growth and Opportunity Act (AGOA). Indeed, the EU required, either under EBA initiative or the previous Cotonou Agreement, that yearn is woven into fabric and then made-up into apparel in the same country or in a country qualifying for accumulation whereas AGOA concedes a Special Rule (SR) to LDC by which these can use fabric from any origin. More recently EU relaxed RoO on textiles putting it more in line with USA AGOA. The changes made on fish RoO were not that consensual, however (EBCAM, 2009:2-3).

On this front the World Bank (2008:15) refers to the working paper of Portugal – Perez (2007)[4] which provides econometric evidence that easing RoO and accepting the use of fabric for any origin has bolstered apparel exports from the top seven beneficiaries of AGOA's Special Rule by around 300%. The international organisation also reports a recent research paper by Cadot and de Melo (2007)[5] which also points to the negative impact of current RoO on the trade preferences conceded by developed world to African economies.

Figure 1: Apparel Exports of 22 Countries Benefiting from AGOA SR by 2004



Notes:
*The 22 Sub Saharan countries benefiting from AGOA-SR by 2004 as well as ACP are: Benin, Botswana, Cameroon, Cape Verde, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mali, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Swaziland, Tanzania, Uganda, and Zambia.
*The top 7 exporters are : Botswana, Cameroon, Ghana, Kenya, Lesotho, Madagascar, Namibia, Nigeria, and Swaziland. Source: Portugal-Perez (2007)

Source: Portugal-Perez (2007) (cited in World Bank 2008:29)

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[4] Portugal-Perez, Alberto (2007), "The Costs of RoO in Apparel: African Apparel Exports to the US and EU". *University of Geneva*, mimeo.

[5] Cadot, Oliver, Jaime de Melo and Alberto Portugal-Perez, 2007, "Rules of Origin for Preferential Trading Agreements: Implications for the ASEAN Free Trade Area of EU and US Experience*", Journal of Economic Integration*, 22 (2), pp.288-319.

1.3.4. Sanitary and Phytosanitary Standards (SPS)

Product standards and technical specifications can lead to an increase of trade costs for exporters, who are forced to change production processes in order to comply with standard regulations of the importing country as well as take all the necessary steps to obtain the required certification. SPS can prove useful to the exporter, however, when providing valuable information about the consumer market in the importing country, reducing therefore information costs (World Bank 2008:7). Nonetheless, evidence seems to suggest that SPS are being used by some countries for protectionist purposes, resulting in numerous, complex and onerous SPS.

According to Alpha et all (2005:13) SPS as an access condition to developed markets have increased from 300 in 1980 up to 3000 in 2000. The situation seems to be particularly shocking regarding European SPS which are, as a whole, more demanding that international SPS, posing therefore a challenge to ACP countries' exports. A primary condition to access the European market is that agricultural exports do not exceed the Maximum Residual Limits (MRL) for pesticides authorised by the European Commission (imposed to the safeguard of human health). The application of a new European regulation on the control of foodstuffs on January, 1st 2006, proved even more demanding as despite being an internal EU regulation the Commission recognized it should be applied to third countries exporting to the European market.

An important point here is that the new generalised regulation makes it compulsory for food companies to apply the Hazard Analysis Critical Points (HACCP) principles whilst the new European regulation also requires competent authorities of the exporting country to ensure that exporters comply with EU rules, meaning that such competent authority must have been recognised by the Commission's services – the Food and Veterinary Office (FVO). For those more familiar with the reality of the developing world it is easy to understand how burdensome such a measure can be, given the institutional constraints at the public level related to the lack of resources and capabilities, which affect private initiative.

The World Bank (2008:7) cites a study from Otsuki et al. dated from 2001[6] which after examining the impact of European aflatoxin standards on African groundnut exports concluded that a 10% rise in SPS restrictiveness is related to an 11% drop in trade. The international organization also quotes a study from Disdier et al. (2007[7]) which uses *"(...) data on WTO notifications of mandatory sanitary and phytosanitary measures, as well as technical regulations, to measure the impact of standards across a large number of different sectors"* where they conclude that *"(...) standards are associated with negative trade impacts, in particular for exports from developing countries to OECD countries".*

A study by Moenius (2004)[8] concludes on the positive net impact of SPS on trade in the manufacturing sector, as it helps to mitigate information costs to the exporter. The same conclusion does not apply to the agricultural sectors, which deals with more homogeneous products, having therefore lower information costs.

2. Import Competition in ACP Countries' Domestic Markets

ACP countries face competition from imports to their local production, either because these latter are more competitive in terms of productivity and comparative advantages or because of the dry up consumer markets for some products (European poultry exports to West and Central Africa is one of the examples). This kind of competition outlines the structural constraints face by ACP countries.

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[6] Otsuki, Tsunehiro, John S. Wilson, and Mirvat Sewadeh, 2001, "What Price Precaution? European Harmonization of Aflatoxin Regulations and African Groundnut Exports", *European Review of Agricultural Economics*, 28 (3), pp. 263-284.

[7] Disdier, Anne-Célia, Lionel Fontagné, and Mondher Mimouni, 2007, *The Impact of Regulations on Agricultural Trade: Evidence from SPS and TBT Agreements,* Working Paper No. 2007-04, CEPII.

[8] Moenius, Johannes (2004), *Information Versus Product Adaptation: The Role of Standards in Trade*, International Business and Markets Research Center Working paper, Northwestern University (in World Bank, 2008).

2.1. Unfair Competition: ACP Countries with Little Room of Manoeuvre

Worrisome is when competition comes from distortion brought by aids to producers and exports which enable these to practice dumping prices i.e. sell below the production cost (often the example here goes to USA and EU wheat exports). This practice, more recurrent in the developed world (which owns the financial resources to undertake such measures), contribute to the destabilization of global markets, as they provide the incentive to overproduction as well as low, artificial and volatile prices.

On the issue of subsidization to agriculture, Stiglitz (2006:85) notes that the subsidies of the USA, EU and Japan (and included hidden subsidies on water) al together account, at least for 75% of total income of SSA, leaving African farmers unable to compete in global markets. The average European cow receives a subsidy of US$2 per day, whilst in the developing world more than half the population lives on less than that. According to Oxfam (2008:17)[9], Europe spent €50bn in support to farmers in 2006, a support ACP countries can not give has they do not own resources. *"(...) Tariffs are one of the few instruments they can use to offer a degree of support to their farmers and struggling manufacturing sectors. Yet EPAs allow the use of subsidies and forbid the use of tariffs".*

Distorted competition is unfair in nature, but particularly unfair for ACP countries which see themselves with little room of manoeuvre to provide the same support to domestic production and exports sectors, either because their Structural Adjustment Programmes (SAP) don't allow it or because the do not have the necessary financial resources. The framework of SAPs implied strong reductions in tariffs (in line with the liberal spirit that inspired the design of such programs) so by the time of 1995 agricultural agreement most countries were carrying regimes of very low tariffs. The reductions in tariffs for developing countries (LDC excluded) were in line with tariff lifts determined at the end of the Uruguay Round. Most ACP countries opted for a system of ceiling rates

[9] Eurostats Agriculture Handbook (cited in Oxfam, 2008:17)

then, which provided them with the flexibility to increase tariffs later. It is important to note, however, that tariffs remain, in most cases, well below the ceiling rates, so ACP countries should consider the possibility of running for more protectionist commercial policies (Alpha et al., 2005:15-16).

The liberalization that EPAs portend for European exports entering ACP countries will make European products even more competitive than local products, having a direct impact on domestic industries as well as on people that directly or indirectly depending on it as a way of subsistence. This is why the definition of sensitive and special products to be excluded from liberalization as well as safeguard mechanisms assume such great importance at EPAs negotiations (this issue will be further developed on Chapter IV). Additionally, EPAs pose a threat to the regional trade as it could trigger trade diversion away from regional partners into EU imports.

2.2. Dependence of Import Related Fiscal Revenues

Related to weak institutions and bad governance practices (and to some extent it could be seen as a consequence of it) is the little level of economic diversification of ACP economies (many of them strongly relying on commodities trade) and also the high dependence of total fiscal revenue on import tariffs. The loss of fiscal revenue from import tariffs is one of the issues that is fuelling controversy on EPAs negotiations.

EPAs impose budgetary constraints on ACP governments, as the latter lose an important source of fiscal revenues related to imports tariffs. These countries haven generally narrow existing domestic tax bases and fear losing significant tariff from eliminating tariffs on 80-85% of imports from the EU. A study from L. Hinkle et al. (2005, 207:271) estimates that in Sub-Saharan Africa (SSA) tariffs average 1% of GDP and around 7% to 10% of government total revenue. This already high dependence happens to be even higher for countries like Gambia and Cape Verde, whose tariffs account for up to 20% of their revenue. Furthermore, as EU products account for 40% of total imports in the region, the elimination of these tariffs has significant impact in public revenue. Trade diversion from external to EU suppliers would increase even more the loss of tariff revenues.

Estimates for these losses vary by region and according to the different studies, and can be expressive to some countries (5-10% of total revenues) and quite expressive to some others (10-15% of revenues). The author cited the study of Busse et al. (2004)[10], which estimates losses of 19.8% of total government revenue in the case of Cape Verde, 21.9% for Gambia and 10.7% for Senegal. In SADC, on the other hand, according to a UNECA (2004)[11] study, revenue losses as a share of total government revenue would stay below 2.5%.

Table 2: Revenue Loss as a Share of Total Government Revenue as a Result of EPAs

	UNECA (2005)	Nielsen (2005)	Busse et al. (2004) a)	Karingi et al. (2005)		UNECA (2004)	Khandelwal (2004)
ECOWAS					**ESA**		
Benin	6.7	9.7	8.6		Burundi		6.9
Burkina Faso	6.1	4.2	5.6		Comoros		6.3
Cape Verde		21.2	19.8		Kenya		7.7
Cote d'Ivoire	5.6	8.1	4.6		Madagascar		1.9
Gambia		16.7	21.9		Malawi		3.3
Ghana	19.2	7.7	10.3		Mauritius		11.8
Guinea		6.2	4.9		Rwanda		10.2
Guinea-Bissau	19.4	4.1	5.6		Uganda		0.7
Mali	4.5	8.1	3.8		Zambia		4.0
Mauritania	7.1		6.3		**SADC**		
Niger	7.6	6.8	3.6		Angola	2.4	
Nigeria	2.3	3.3	2.5		Botswana	0.2	
Senegal	6.0	7.4	10.7		Lesotho	0.0	
Sierra Leone		8.5			Mozambique	1.5	
Togo	12.5	16.7	7.4		Namibia	0.5	
CEMAC b)					Swaziland	0.4	
Cameroon				10.6	Tanzania	2.3	1.1
Congo				11.7			
Chad				13.6			

Notes: a. Estimations using medium scenario of Busse and others (2004).
b. Karingi and others (2005) report revenue shortfalls for all regions in monetary terms. Estimations provided here are expressed as a share of government revenue using most recent revenue figures from IMF International Financial Statistics.

[10] Busse, M., A. Borrmann, and H.Grobmann, 2004, "The Impact of ACP/EU Economic Partnership Agreements on ECOWAS Countries: An Empirical Analysis of the Trade and Budget Effects". Institut fur Wirtschaftsforschung, Hamburg.

[11] UNECA, 2004, "The EU-SADC Economic Partnership Agreement: A Regional Perspective." Unpublished paper. Trade and Regional Integration Division, Addis Ababa.

Source: Hinkle et al. (2005:270). Compiled from UNECA (2005), Nielsen (2005), Busse et al. (2004), Kaningi e al. (2005), UNECA (2004), Khadelwal (2004); IMF IFS.

2.2.1. Are Fiscal Revenue Losses Being Overplayed?

There is a strong debate whether these studies overplay the revenue losses problem. L. Hinkle et al. (2005:272) believes this happens to be the case to some countries and proceeds noting the widespread practice on tariff exemptions grants in SSA, which if suppressed would cap revenue losses. The author cites the study of Busse, Borrmann and Grossman (2004)[12] which concludes on low collection efficiency by noting that on average tariff collections are 70% or even lower of potential tariff revenues for ECOWAS countries and below 40% and 30% in Guinea-Bissau and Ghana respectively.

A recent report by World Bank (2008d: 21-22) acknowledges that *"(...) most of the analyses of revenue losses made prior to the initialling of interim had serious flaws and, as a consequence, significantly overstated the likely revenue losses to be expected from implementing interim EPA"* and mentions the most recent estimates of Breton, Hoppe and Von Uexkull (2007)[13] made for four African LDCs (Madagascar, Ethiopia, Malawi, Zambia), which considers far more accurate. According to these authors the losses on revenues arising from eliminating tariffs on EU's imports on those four countries ranges between 1% and 4% of total tax revenues, significantly below the numbers presented in the above table. They factored in tariff exemptions (which allowed to make the correction through statutory tariffs) as well as revenues from VAT and excise taxes on imports (which according to the study are responsible for 56%-71% of revenues from taxes in the four-country sample and increases as imports rise on the back of tariff cutting). Furthermore, the estimates assumed the elimination of tariffs on 100% of imports from the EU and not on 80%, making them reinforce the conservative nature of the study.

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[13] Brenton, Paul, Mombert Hoppe, and Erik von Uexkull, 2007. "Evaluating the Revenue Effects of Trade Policy Options for COMESA countries: the Impact of a Customs Union and an EPA with the European Union". Paper prepared as part of the World Bank – COMESA Joint Work Program for Regional Integration and EPA negotiations. Washington, DC:

Table 3: Estimated revenue Losses from EPAs for Four COMESA Countries (assuming elimination of tariffs on all imports from EU)

Country	Estimated Revenue Loss in %				Revenue structure in %		
	as a share of **tariff** revenue	as a share of revenue from **trade taxes**	as a share of **total tax revenue**	as a share of **total Gov revenue** incl grants	Tariff revenue/ Trade tax revenue	Trade tax revenue/ Total tax revenue	Tariff revenue/ Total tax revenue
EPA signatories							
Madagascar	-29.9	-11.2	-4.1	-2.6	34.1	37.2	12.7
EPA non-signatories							
Ethiopia	-17.7	-8.0	-3.4	-2.1	44.3	43.3	19.2
Malawi	-6.5	-2.4	-0.8	-0.4	33.9	35.4	12.0
Zambia	-17.7	-5.5	-1.7	-0.6	28.7	31.7	9.1

Notes: Percentage changes and ratios are calculated based on collected tariffs. Revenue data are for 2006, except for Ethiopia (2005). Trade taxes are defined as the sum of customs tariffs + VAT + excise duties + other miscellaneous duties on imports. Assumed cross price elasticity of substitution between imports from EU and from the rest of the world is -2.

Source: Brenton, Hoppe and von Uexkull, 2007 (cited in World Bank, 2008d)

Nonetheless, World Bank (2008d: 22) also reports the work of Baunsgaard and Keen (2005)[14], which using a panel data for 111 countries over a period of 25 years concludes that high to middle income countries have been successful in replacing revenues lost due to tariff reductions whereas "(…) *revenue recovery has been extremely weak in low-income countries (which are those most dependent on trade tax revenues): they have recovered, at best, no more than about 30 cents on each lost dollar. Nor is there much evidence that the presence of a value-added tax has in itself made it easier to cope with the revenue effects of trade liberalization"*.

Despite noting the controversial nature of the revenue loss issue, the world international organization concludes that *"(...) all countries desiring to integrate into the global trading system must sooner or later replace tariff revenues with increased domestic taxation"*, making a clear call for domestic tax systems strengthening and

[14] Baungaard, Thomas, and Michael Keen, 2005. "Tax Revenue and (or?) Trade Liberalization". IMF Working Paper WP/05/112, International Monetary Fund, Washington D.C., June.

improved tax and customs administration. Furthermore, it emphasises that as elimination of tariffs *"(...) will take place, in most cases, 10 to 15yrs from now, EPA-signatories will have a long period in which to strengthen their revenue systems in anticipation of these losses, which in most cases should be manageable"*.

Whilst there seems to be a consensus regarding the need to improve the functioning of the tax administration system, it is more doubtful whether increasing domestic taxation is reasonable for many of these economies, which already have to deal with high poverty incidence. Even if this is made there is no guarantee it will be able to compensate for the revenue loss on the back of tariff elimination. Furthermore, as it will be deeper developed on Chapter II, the elimination of tariffs negotiated on EPAs is not being as spread over the transition period as one would expect, not providing these economies with the necessary time for strengthen their revenue systems.

3. ACP Countries Structural Constraints

The reciprocal trade regime under the framework of EPA's has several important implications to ACP countries, which gain greater importance in the context of the significant structural constraints these countries already face, which invariably translate into higher production costs, capping ACP countries' competitiveness. Alpha et al. (2005: 14) group these weaknesses in four: (i) insufficient public infrastructures (roads or railroads) which weigh on transportation costs and prove particularly harmful for fresh products trade (fish, fresh vegetables), portending risks for human health in the case of frozen products; (ii) feeble public utilities services, marked by shortcomings in water ad electricity which negatively affect the economy competitiveness; (iii) absence or little reliance of informatics systems, weak financial services, subdued investment and financing, low labour productivity (linked to the struggles on the health and education sectors we mentioned above); and (iv) institutional weaknesses related to corruption and bad governance practices. Stiglitz (2006:70) emphasises that developing countries (where ACP countries are included) *"(...) not only lag in resources but also in technology; for* *achieving sustained growth, closing the knowledge gap is more vital than improving efficiency or increasing available capital".*

Table 4: Comparison of Average Ranking of Major Developing Regions in Business Climate and Competitiveness indicator, 2007-2008

	Doing Business Ranking	Global Competitiveness Ranking
East Asia & Pacific	77	50
Eastern Europe & Central Asia	76	73
Latin America & Caribbean	87	83
Middle East & North Africa	96	53
South Asia	107	90
Sub-Saharan Africa	***136***	***106***
Total number of countries in sample	178	131
Average Ranking	89	66
Number of African countries in sample	46	23

Note: Because the *Doing Business 2008* data cover 178 countries whereas the Global Competitiveness Index covers only 131 countries, the average country ranking under the Doing Business Indicators (89) is thus 23 points lower than the average country ranking under the Global Competitiveness index (66). A second difference is that *Doing Business 2008* reports data for 46 sub-Saharan African countries, whereas the *Global Competitiveness Report 2007-2008* includes only 23 sub-Saharan African countries.

Source: Doing Business 2008 and the Global Competitiveness Report 2007-2008 (cited in Worl Bank, 2008d)

According to UNECA (2003) electricity and transport costs in Africa are seen by 65% of surveyed businesses as restrictively high. Regional integration can play an important role in what regards to lowering electricity, transport and telecommunication costs, as in some regions markets are too small to realize full economies of scale in network services and their regulations.

3.1. Infrastructure and Trading Costs in Africa

In European markets, ACP countries face the fierce competition of Asian and Latin American countries, particularly on tropical products. According to a recent research released by the World Bank (2008:1), high costs of trade can cap a country's trade performance, as producers face higher imported inputs prices and endure high cost on final goods. According to the study "*African countries are among those having the highest trading costs in the world, and that for several types of costs*", a performance which is largely put to poor infra-structure and weak institutional bodies whilst the report in itself plays down the importance of tariff barriers, considered to be relatively low across all countries.

In fact, when looking further into trading costs in Africa several other dimensions have to be taken into account, such as geography (15 landlocked countries in Africa[15]), the political stability, the infra-structural capability and institutional quality/development of those countries as well as of the neighbouring transit countries to targeted markets.

Table 5: Transit Costs in Selected African Countries and World Groups, 2001

Country or country group	Transport and insurance payments (US$ millions)	Exports of goods and services (US$ millions)	Transit costs as a share of the value of exports (%)
Botswana	230	3,030	8
Burkina Faso	70	272	26
Burundi	23	96	24
Central African Republic	59	179	33
Chad	99	190	52
Ethiopia	240	979	25
Lesotho	43	283	15
Malawi	214	385	56
Mali	229	644	36
Rwanda	70	144	49
Swaziland	30	1,085	3
Uganda	269	757	36
Zambia	216	1,255	17
Zimbabwe	379	2,344	16
Landlocked countries	3,706	26,314	14
Least developed countries	4,277	24,840	17
Developing countries	109,055	1,268,581	9

Source: UNECA (2003), compiled from UNCTAD data

[15] These landlocked countries are Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Lesotho, Malawi, Mali, Niger, Rwanda, Swaziland, Uganda, Zambia and Zimbabwe.

Trade costs comprise all the costs incurred in supplying a final good to the end user and this includes from getting information about market conditions in the foreign market until the final payment is made. The definition is wide enough to include all the extra costs incurred in order to comply with the demands from the foreign market under target (which wouldn't occur if the product was sold domestically), which means that RoO and SPS mentioned above should also be factored into as trade costs.

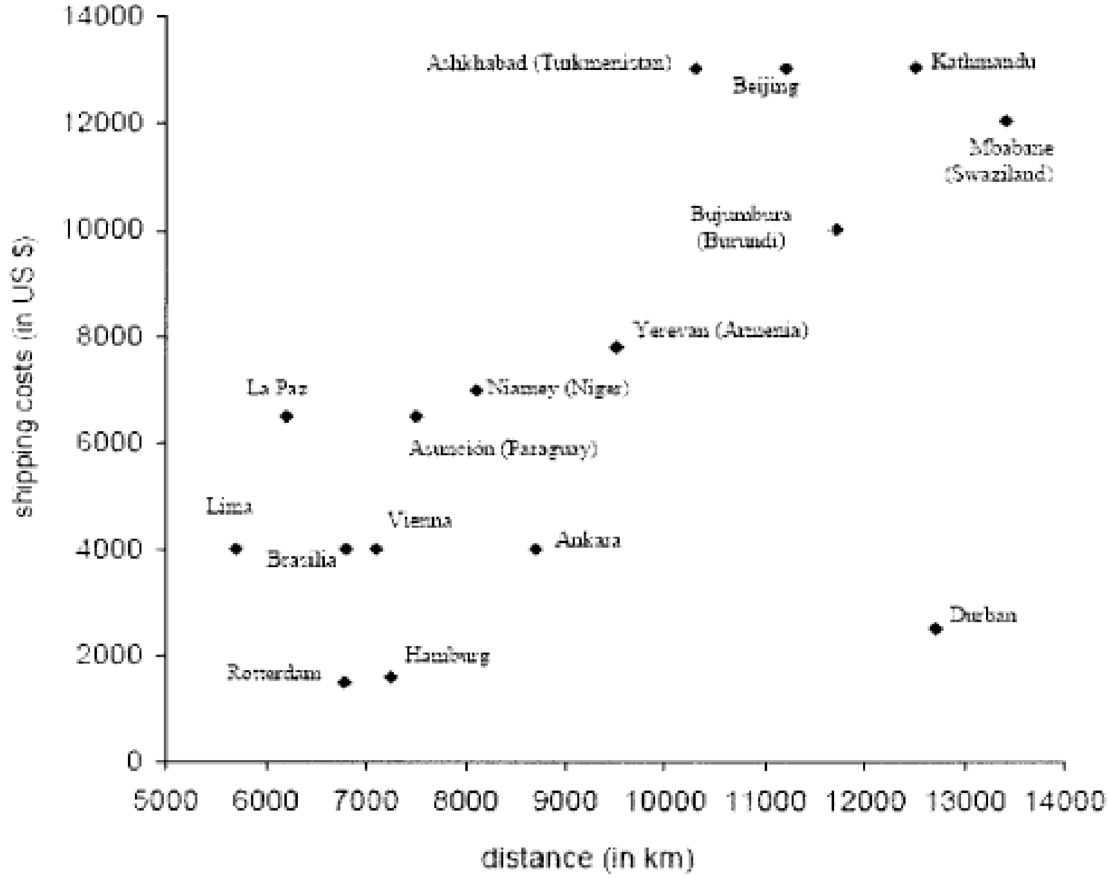
World Bank (2008:3) cites an Anderson and Van Wincoop work dated from 2004[16] on trade costs sources which concludes on a rough 170% estimate (in terms of *ad-valorem* equivalent) of representative trade costs for industrialized countries, breakdowned as follows: 21% for transportation costs, 44% for border-related trade barriers and 55% for retail and wholesale distribution costs.

3.1.1. Transport Costs

African countries face much higher transport costs than the developed world as one can see from the figure below, which illustrates the costs of shipping a standard 40-foot container from Baltimore to several cities, based on information provided by international freight forwarders and their respective geographical distance. Inland transport for landlocked African countries weight on the costs structure; although the distance from Baltimore to the port city of Durban (South Africa) is pretty much the same as the distance to Mbabane (the capital of landlocked Swaziland), shipping costs to the latter are around 5 times higher than to the former city.

[16] Anderson, James E., and Eric Van Wincoop, 2004, "Trade Costs", *Journal of Economic Literature*, 42 (3), pp 691-751.

Figure 2: Comparison of Shipping Costs (2002)



Notes: The data refers to the cost of shipping a 40-foot container from Baltimore (United States) to each considered destination. Figures correspond to an updated version of the dataset employed by Limao and Venables (2001) dataset. The numbers have been updated and complemented in October 2002 with price quotes of MAERSK, an international freight forwarder. Shipments refer to loosely packed freight and do not include insurance costs.

Source: Busse (2003)[17] (cited in World Bank, 2008:23)

[17] Busse, Mathias, 2003, "Tariffs, Transport Costs and the WTO Doha Round: The Case of Developing Countries". *The Estey Centre Journal of International Law and Trade Policy*. Volume 4 Number 1,p. 15-31.

Table 6: Physical Integration in Selected Regional Economic Communities in Africa (2000)

Regional economic community	Trans-African Highway: Total links (km)	Missing links (km)	Missing links as a share of total (%)
COMESA	15,723	2,695	17
EAC	3,841	523	14
ECCAS	10,650	4,953	47
ECOWAS	10,578	2,970	28
IGAD	8,716	2,423	28
SADC	11,454	2,136	19
UMA	5,923	1,110	21

Source: UNECA (2003)

3.1.2. Customs Procedures

Simple and transparent procedures at custom administrations also translate into lower trade costs. A study from Djankov, Freund and Pham dated from 2006 concludes that *"(...) each day of delay at customs is equivalent to a country distancing itself from its trading partners by additional 85km"*. It also has to be taken into account that this sort of delays also produces additional storage and wages costs.

According to the World Bank 2008 Doing Business Report, Sub-Sahara Africa (SSA) is the region that demands for the highest number of export and import procedures, holding also the higher import and export costs[18].

[18] *"Doing Business reports the official fees levied on a 20-foot container in US dollars associated with completing the procedures to export or import the goods, which include costs for documents, administrative fees for customs clearance and technical control, terminal handling charges, inland transport, and excluding tariffs and trade taxes".*

Table 7: Trading Across Borders (2008)

Region or Economy	Documents for export (number)	Time for export (days)	Cost to export (US$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US$ per container)
East Asia & Pacific	6.7	23.3	902.3	7.1	24.5	948.5
Eastern Europe & Central Asia	7.1	29.7	1,649.1	8.3	31.7	1,822.2
Latin America & Caribbean	6.9	19.7	1,229.8	7.4	22.3	1,384.3
Middle East & North Africa	6.5	23.3	1,024.4	7.6	26.7	1,204.8
OECD	4.5	10.7	1,069.1	5.1	11.4	1,132.7
South Asia	8.5	33.0	1,339.1	9.0	32.5	1,487.3
Sub-Saharan Africa	7.8	34.7	1,878.8	8.8	41.1	2,278.7

Source: Doing Business database (World Bank 2008b)

3.2. Trade Restrictiveness Indices

There is a variety of trade policy-related barriers that raise the cost of trading, from tariffs (*ad valorem* and specific), quotas, the combination of both in tariff-rate quotas, antidumping, countervailing duties, safeguard measures, non-automatic licensing, subsidies, among others. Trade restrictiveness takes the form of all them though it's hard to get an index that comprises them all. There are two indexes that intend to measure trade restrictiveness developed by Kee, Olarreaga and Nicita (2006)[19]: the Overall Trade Restrictiveness Index (OTRI) and the Tariff Trade Restrictiveness Index (TTRI). According to World Bank (2008:5) they *"(...) represent the ad valorem tariff which, if applied by an importing country to all imports, would result in a total import level equivalent to that prevailing under current policy settings"*.

The major difference between the two is whereas the OTRI gathers all the information on such policies provided by international organizations operating on the field (International Trade Centre (ITC), United Nations Conference on Trade and Development (UNCTAD) and WTO) – which include from ad valorem tariffs, to specific

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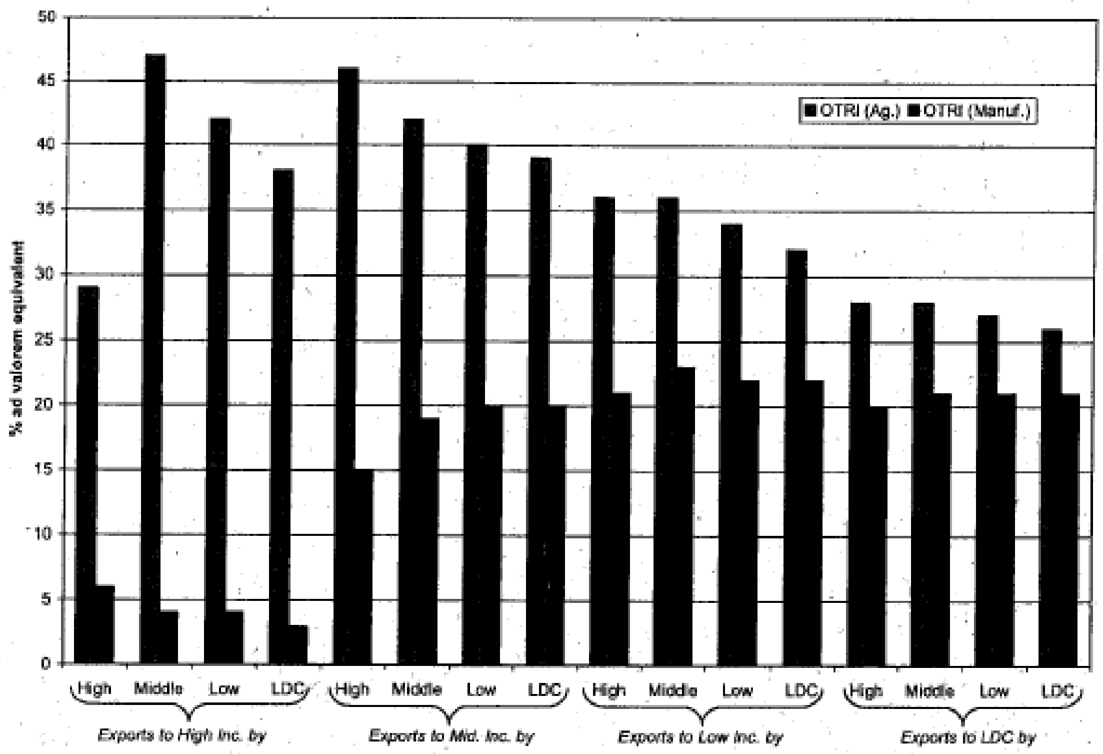
[19] Kee, Hiau looi, Alessandro Nicita and Marcelo Olarreaga, 2006 "Estimating Trade Restrictiveness Indices", Policy Research Working Paper No. 3840, The World Bank.

duties as well as non-tariff measures in the form of price control measures, quantitative restrictions, monopolistic measures of technical regulations - the TTRI is confined to *ad-valorem* and specific tariffs. OTRI's scope is therefore wider, containing many of the issues that strangulate trade the most in nowadays, though it is criticized by some for measuring government restrictiveness and not protectionism, since it is hard to distinguish when non-tariff measures are driven by protectionism or instead if they have the purpose to safeguard human, animal or plant health. Even admitting such limitation, it seems pretty obvious that TTRI clearly underestimates the level of protection in the market. Furthermore, and according to World Bank (2008:5), non-tariff barriers contribute an additional 70% on average to the level of restrictiveness resulting from tariffs alone.

3.2.1. Trade Restrictiveness Higher for Agricultural than Manufactured Goods

The figure below shows that OTRI is on average twice as high for agricultural products as for manufactured goods, numbers which reinforce Stiglitz (2006:75) argument that restrictive trade policies have been focused on agricultural products (which also represent African countries key exports sector) as compared to manufactured goods. According to the author *"trade negotiations led by the advanced industrial countries under the auspices of GATT, the General Agreement on Tariffs and Trade, (…) focused on liberalization of trade in manufactured goods, the comparative advantage of the advanced industrial countries. There was limited trade liberalization in the areas important for developing countries, such as agriculture and textiles. Textiles remained subject to strong limits (quotas) on a country-by-country, product-by-product basis; likewise, agriculture remained highly protected and subsidized."*

Figure 3: OTRI for Agriculture and Manufactures



Source: Kee et al. (cited in World Bank, 2008:23)

When focusing our analysis on Agriculture it is interesting to see that Japan, followed by the EU are those holding the highest overall trade restrictiveness towards that sector; manufacturing, on the contrary, face the lowest restrictions. In face of such evidence, the world multilateral organisation has been wording increasing concerns towards unfair treatment against developing economies, as noted on a speech by its Director General Pascal Lamy: *"(...) Trade opening and rule-making are indeed major goals of the WTO. But today a number of the current substantive rules of the WTO do perpetuate some bias against developing countries. This is true for example with rules on subsidies in agriculture that allow for trade-distorting subsidies which tends to favour developed countries. This is also true when we look at the high tariffs that many developed counties apply on imports of agricultural and industrial products, in particular from developing countries."*[20]

[20] Pascal Lamy speech at July 2nd, 2007.

Table 8: OTRI and TTRI (percent), for the Four Largest Traders, 2006

	All trade	Agriculture	Manufacturing
United States	**6.4**	**18.4**	**5.7**
	1.6	*3.8*	*1.5*
European Union	**6.6**	**48.7**	**2.9**
	1.4	*5.9*	*1.1*
Japan	**11.4**	**55.8**	**5.7**
	4.5	*31.1*	*1.1*
China	**9.9**	**17.1**	**9.5**
	5.1	*8.8*	*4.9*

Source: Global Monitoring Report (World Bank, 2008c)
Note: TTRI in italics; OTRI in boldface font

3.2.2. Developing Economies Facing and Imposing the Highest Protectionism

OTRI also puts on evidence that low and middle income countries have been the ones facing and imposing highest levels of protection at the same time. The level of overall trade restrictiveness is, on average, higher for Middle East & North Africa, South Asia, Latin America & the Caribbean and Sub-Sahara Africa as opposed to two of the largest countries traders[21], the US and EU.

[21] The four largest traders (EU, US, Japan and China) account for circa 60% of world trade.

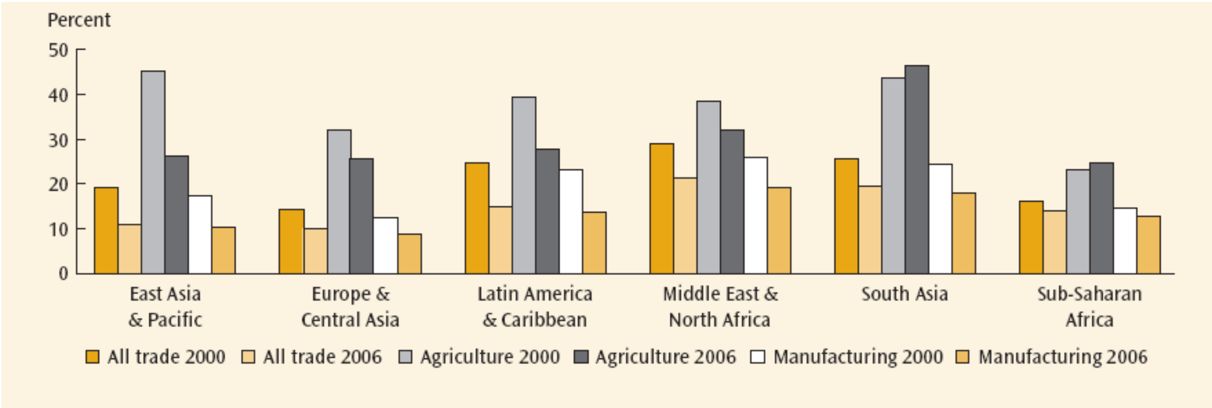
Table 9: OTRI and TTRI (percent), by Developing Country Region, 2006

	Total trade	Agriculture	Manufacturing
East Asia & Pacific	**11.3**	**26.6**	**10.4**
	5.0	*8.7*	*4.8*
Europe & Central Asia	**10.1**	**25.9**	**9.0**
	4.5	*10.3*	*4.0*
Latin America & the Caribbean	**15.0**	**28.1**	**13.8**
	5.4	*6.6*	*5.3*
Middle East & North Africa	**21.6**	**32.3**	**19.4**
	11.9	*12.1*	*11.8*
South Asia	**19.5**	**46.4**	**18.2**
	14.0	*31.4*	*13.2*
Sub-Saharan Africa	**14.4**	**24.9**	**12.9**
	8.4	*13.8*	*7.6*

Source: Global Monitoring Report (World Bank, 2008c)
Note: TTRI in italics; OTRI in boldface font

The figure presented below, extracted from 2008 Global Monitoring Report, points out that overall trade restrictiveness has been decreasing as result of unilateral reforms and trade negotiations. Within the 2000-2006 period East Asia and Latin America led the narrowing of overall trade restrictiveness whereas agriculture trade restrictiveness increased the most in South Asia and Sub-Saharan Africa.

Figure 4: Change in Overall Trade Restrictiveness Index (OTRI), 2000-2006



Source: Global Monitoring Report (World Bank, 2008c)

All in all, though acknowledging the importance of infrastructures on trade and development, the targeting of this issue should not be undertaken at the expense of fiscal revenue, which is essential to assure investment in education and heath sectors in developing countries.

CHAPTER II

ECONOMIC PARTNERSHIP AGREEMENTS: CONCEPT AND EXTENSION

The round of EPAs negotiations started in September 2002 and initially aimed to be concluded by December 2007. However, only a small number of countries closed full deals by this time, so most countries are trading with the EU on the grounds of interim EPA agreements (IEPA). This Chapter proposes itself to look into EPAs origin, assessing the factors and rational behind the concept, and also to investigate whether these agreements are to be considered inevitable (Section 1). It then focuses on the negotiation process as well as on the speed and size of the proposed trade liberalisation for ACP countries (Section 2). EPAs were flagged by the EU as a tool to foster ACP countries' regional integration process and therefore this Chapter intends to evaluate to which extension this target is being met (Section 3).

1. Economic Partnership Agreements: Origin and Scope

The Economic Partnership Agreements are the commercial part of the Cotonou Agreement, signed in 2000, which replaced the several Lomé Conventions in force since 1975. Under the Lomé Conventions ACP countries benefited from preferential non-reciprocal commercial treatment from the EU, which means that the EU granted preferential access to exports from ACP countries in comparison to other countries without requiring identical preferential treatment over their exports to ACP members. However, this regime faced severe criticism all through the 90s because it was not complying with one of the rules imposed by WTO - the Most Favoured Nation Principle (MFNP). This means that the EU was pursuing discrimination in favour of ACP countries and against other countries. The Cotonou Partnership Agreement signed in 2000 called for the modification of the trade regime, with the new trade regime to be implemented by 2008 (Stevens, 2008: 211-212).

1.1. Non Compliance with WTO's Most Favoured Nation Principle

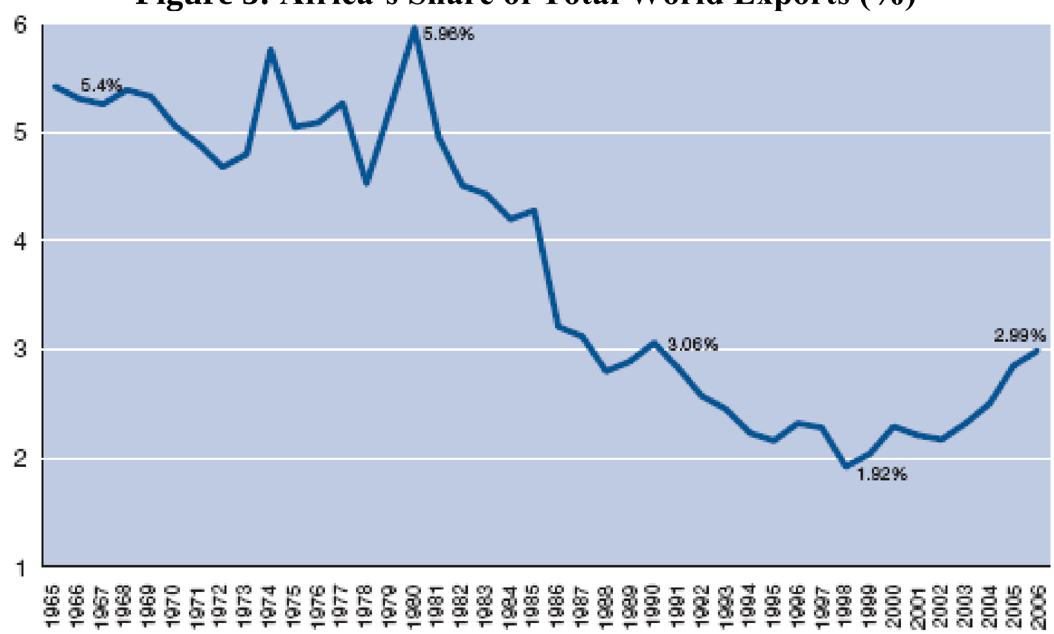
According to the MFNP all trade advantages granted by one country to another one or a group of countries must, automatically, be extended to all WTO member states unless those trade preferences are reciprocal under the framework of a free trade area (FTA) or a customs union (XXIV article of the GATT agreement). Least Developed Countries (LDC) comprise an exception - they enjoy from a new Generalized System of Preferences (GSP) comprising the EBA initiative, which excludes them from compliance with the MFNP imposed by the WTO, meaning they are allowed to keep on benefiting from non-reciprocal trade preferences.

Furthermore, the XXIV article of the GATT agreement provides a rather vague definition of a customs union or FTA, stressing out that those agreements should comprise a substantial part of trade and extend over a reasonable period of time. A FTA *"shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce are eliminated on substantially all the trade between the constituent territories in products originating in such territories"*.
As the article is subject to different readings, the EU assumes that *"substantially all trade"* corresponds to 90% of all trade (free of customs duties and non-tariff barriers and no sector can be excluded on its whole) between the FTA members and the time horizon for FTA's implementation extends up to 12 years.

1.2. ACP Countries Trade Preferences Erosion

EU preferential treatment to ACP exports was also censured for the low effectiveness of this type of commercial cooperation as a way to integrate ACP countries into world trade, as statistics pointed towards the maintenance of an inexpressive market share on international trade after several years of commercial cooperation. The access to a special trade regime did not improve the position of ACP countries in world trade**,** even as the number of countries was enlarged; statistical data point instead to a deterioration. Alpha et al. (2005:11-12) note that when narrowing the scope of analysis towards Europe, the conclusion remains broadly unchanged, as over the last 20 years ACP countries market share in European imports has fallen from 8% down to 3%. The erosion of trade preferences of ACP countries worked, mostly, to the benefit of Asian countries, notwithstanding the fact that none of these countries has enjoyed from preferential trade treatment. According to the World Bank (2008:1) Africa's market share on total world exports has fallen by around two thirds in the last three decades, passing from 2.9% in 1976 to 0.9% in 2006. The numbers provided by WTO online data and compiled by UNECA (2008b) point to a slightly higher market share, of around 2,99% in 2006, but which still marks a noticeable downfall from the 5.98% high recorded back in the early 80s.

Figure 5: Africa's Share of Total World Exports (%)



Source: WTO online data (cited in UNECA, 2008b)

Several factors lay behind ACP countries trade preferences erosion: (i) multilateral liberalization promoted by WTO, portending generalised tariffs reduction; (ii) the signature of bilateral free trade agreements between EU and other countries, also introducing a reduction of tariffs (that was the case of fruits and vegetables with Mediterranean countries, for example); (iii) the reform of Common Agriculture Policy (CAP) in June 2003, levelling European prices off with world levels and as such penalising ACP countries which in most cases have benefited from this higher prices; (iv) the new GSP which comprises the EBA initiative for LDC. Also, the structural constraints ACP countries face, mentioned on Chapter I, which translate into higher production costs capping ACP countries' competitiveness, do not allow these countries to follow the pace of growth of other developing economies like Asian, for instance.

Many ACP countries will have many difficulties in coping with the liberalization Europe is pursuing at the multilateral and bilateral level, as EPAs are implemented. Oxfam (2008:20) calls attention to competition from other developing countries, which ACP countries won't handle. *"Through WTO talks, the EU is set to reduce its tariffs on tuna from 24 per cent to 7-8 per cent, which is likely to displace exports from Papua New Guinea in favour of Thailand and others; Malawi's tobacco exporters stand to lose $3m to subsidised US exporters; Senegal and Mozambique will lose over $8m on prawns and fishery products as Argentina and Brazil increase their market shares; and Madagascar is set to lose out to Hong Kong, China, India and Tunisia in its garment and carpet sectors."*.

1.3. EPA as Free Trade Agreements – an Inevitable Option?

As a result of such criticism and after benefiting from two waives over the compliance with MFNP – one during the Lomé Convention IV-bis (1995-2000) and another over the Cotonou Agreement (2000-2007) – but with the commitment of not asking for a third dispensation, the EU initiated the reform of its commercial regime towards non-LDC ACP countries.

EPA's were designed as FTA between a region of ACP countries and the EU, introducing therefore the principle of reciprocity on trade relations, though the level of such reciprocity might be asymmetric, portending a lower degree of trade liberalization for ACP countries as compared to EU.

It is important to mention Oxfam (2008:6) call on this issue, as according to the Non-Governmental Organisation (NGO) the option for a FTA was more a choice than a need, emphasising that EU could have opted for unilateral preferences for trade in goods, as the WTO admits the possibility of developed countries opening their markets to developing countries without reciprocity when in face on major differentiation between developing countries *"(...) based on objective and transparent development criteria"*. EPAs are not compulsory for the LDC ACP countries, which might opt for the alternative of the new GSP (EBA). The GSP has three levels of tariff: the standard applied to all ACP countries apart from LDC; the EBA covering LDC; and the GSP+ regime which only covers those countries that applied during 2005 (but to which no ACP country applied) (Stevens, 2008:213).

Oxfam (2008:6) notes that EU intentions to turn these trade agreements into pro-development tools for ACP countries were misguided and that instead these could compromise the latter development process as they cap their flexibility to use policies of their choice (chapter IV will tackle these issues). EU's proposal consisted of classic free trade agreements texts, much similar to EU bilateral agreements with Chile and Mexico, which do not take into consideration ACP countries regional differences. The NGO cites a study from Boeut (2007)[22] which states that ACP countries will actually be worse off, as *"(...) under EPAs, European meat exports to most ACP countries were predicted to shoot up by 180%, while every other country grouping measured would see its exports decline by 30%".*

While assumed in theory it is interesting to look further into ongoing negotiations and the content of EPA's final agreements to access the level of asymmetry on the trade relations between the two "partners,". It is also intended to see whether EPA's agreements are strictly complying with WTO rules or if they are going beyond what is required by the multilateral organisation, what, if actually happening, might compromise ACP countries

[22] A.Boeut (2007) "Searching for an Alternative to EPAs", IFPRI, Research Brief Number 10, December 2007. Powerpoint presentation, Evian meeting, December 2007.

negotiation capabilities and tools in the context of an increasingly globalized world. Chapter III will address these issues.

2. EPA's Timetable and Negotiations Update

The round of negotiations carried out between the EU and ACP countries to forge EPA's started in September 2002 and initially aimed to be concluded by December 2007. Due to fundamental differences in position and capacity constraints only a few number of countries was able to close full EPA agreements by this time - 15 CARIFORUM members comprising a full regional EPA[23] out of a total of 76 countries (ECDPM, 2007/2008: 22-23). Criticism grew towards EU unrealistic timetables, the wide scope of issues under negotiation[24] and the related negative social consequences, but still the 2007 deadline was maintained, under EU's threat to raise tariffs over the imports of the ACP non-LDC that did not signed an EPA (or an interim EPA) by then. Signed agreements are now entering the ratification phase by the EU as well as national parliaments, and while this is not completed, the IEPAs are applied provisionally.

Negotiations were supposed to be carried out with a group of countries and not countries individually. Each country had to choose the regional zone which best served its interests. Six regional blocks were initially involved in EPA's negotiations with the EU: Central Africa (CEMAC), West Africa, Southern Africa Development Community (SADC), East and Southern Africa (ESA), Caribbean and Pacific, which cut across ongoing regional integration efforts. Nonetheless, the majority of countries refused to close any deal and only those holding a weaker position – 18 countries and two Pacific countries – decided to initiate deals by December 2007, which in practice gave body to a rising number of bilateral agreements, negotiated within a short period of time. In the second half of 2007 five countries of the EAC (Burundi, Kenya, Rwanda, Tanzania and

[23] On December 16th 2007, 15 Caribbean countries (mostly non-LDCs) concluded a full regional EPA with the EU.

[24] The Caribbean full EPA deal covers trade in goods but also trade in services as well as other areas such as investment, competition, government procurement and intellectual property.

Uganda) announced they would like to negotiate as a new region, what would take place on December, combining members of ESA and SADC-minus (Stevens, 2008:215). EAC countries participate in ESA meetings though they hold separate negotiations with the EC in parallel.

Over 2008 negotiations towards comprehensive regional EPAs have been carried out in all regions, in accordance with the rendez-vous clauses contained in IEPAs. These clauses refer mostly to trade in services and trade related issues and the deadline was for them to be concluded by the end of 2008 (except for the agreements with ESA and EAC, which did not had a timeframe), but evidence seems to point towards an extension of discussion well into 2009 (EBCAM, 2008:1-4).

2.1. EPA's: Liberalising How Far, How Fast?

Ongoing negotiations involve important issues such as the list of products that might be excluded from EPA's negotiations, timetables and the development component EPA's should integrate (ECDPM, 2006b: 1-3). EU intends the final EPA's agreements to be gradually applied so that by 2020 trade liberalization might be completed. (ECDPM, 2007/2008: 22-23).

At the time of writing this dissertation, most countries were trading with the EU on the grounds of interim agreements (covering mainly goods), as full EPAs were still under negotiation. The EU wants all 35 ACP countries that initialled deals to sign them by July 2009, but the odds of this happening are small. Furthermore, over 2008 and 2009 all 76 ACP countries are expected to have full EPA negotiations completed. Beware that initialled EPA deals are not legally binding, so up until the full EPA is agreed, ACP countries can still put the issues of their interest to debate (Oxfam 2008: 9).

In what regards to the size of liberalisation in ACP countries, the EC (European Commission) has been more cautious, but as one can see from the table presented below the liberalization scheduled in interim EPA (IEPA) as of December 2007 was at an average of 80% by the end of the transition period (which in the bulk of the cases extends to 2022/23). Mozambique and Papua New Guinea detach themselves for agreeing on the fasted liberalization schedules, to be concluded as soon as 2008.

Table 10: Liberalisation Schedules Agreed in initialled Interim EPA Agreements

Country		2008	2010	2012	2013	2015	2017	2018	2022	2023	2033	Total
Fiji	v.	24,0%			37,0%			78,0%		81,5%		81,5%
	t.	9,0%			22,0%			62,0%		80,0%		80,0%
Papua New	v.	88,1%										88,1%
Guinea	t.	82,1%										82,1%
EAC	v.		64,0%							80,0%	82,0%	82,0%
	t.											74,0%
Comoros	v.				21,5%				80,6%			80,6%
	t.											
Madagascar	v.				37,0%				80,7%			80,7%
	t.											
Mauritius	v.	24,5%					53,6%		95,6%			95,6%
	t.	26,0%					73,0%		96,6%			96,6%
Seychelles	v.				62,0%		77,0%		97,5%			97,5%
	t.											
Zimbabwe	v.			45,0%					80,0%			80,0%
	t.											
Botswana, Lesotho	v.		86,0%									86%+47 tariff lines
Namibia, Swaziland	t.		86,0%			44*		3*				86%+47 tariff lines
Mozambique	v.	Mostly liberalised										80,5%
	t.							100*				
Côte d'Ivoire	v.							69,8%		80,8%		80,8%
	t.							83,9%		88,7%		88,7%
Ghana	v.							62,2%		80,5%		80,5%
	t.							72,8%		80,0%		80,0%
Cameroon	v.							50,0%				
	t.											
Caribbean	v.	52,8%			56,0%			61,1%		82,7%		86,9%
	t.											

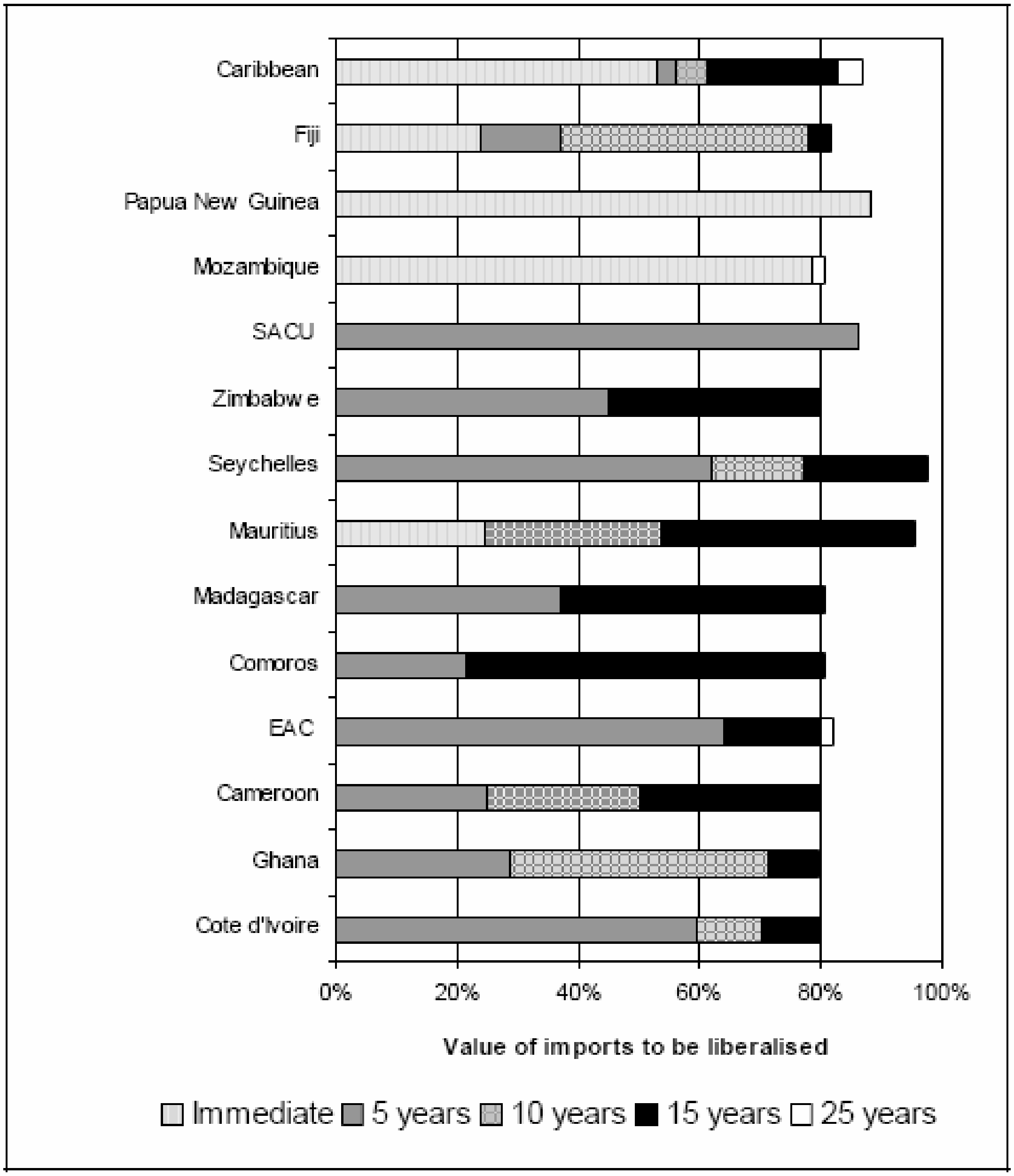
v: cumulative value of imports from the EU, to be liberalised by the specific year. t: cumulative percentage of tariff lines, to be liberalised by the specified year

* additional number of tariff lines to be liberalised by the specified year

Source: ECDPM (2007/2008: 22)

This means that ACP countries have only around 20% for protection of products from competition of European exports, what, as Oxfam (2006:4) notes, *"(...) would effectively squeeze ACP governments into choosing between maintaining tariffs on valuable revenue-raising imports such as cars and electronics; protecting staple food such as maize; exempting a few existing industries from competition; or securing the ability to support future industrial development"*. These latter tools represent a key role for ACP countries development process, which shall be further developed on chapter IV.

Figure 6: Pace and scope of import liberalisation in EPAs (deals initialled in December 2007)



Note: EAC is the East African Community comprising Kenya, Uganda, Rwanda, Burundi and Tanzania; SACU is the Southern African Customs Union. To date, four SACU members (Botswana, Lesotho, Namibia and Swaziland) have submitted a common liberalisation schedule.
Source: Oxfam (2008:15)

Though the willingness of negotiate full EPAs have been shown by actors, the truth is that negotiations are extending over time so interim agreements might be applied over a longer period than was initially expected and some authors even admit the possibility that these become permanent.

3. EPAs: a Deadlock to ACP Regional Integration Process?

Soon EPAs were dropping one of the pro-developments goals they had flagged when first announced - promote regional integration among ACP countries. This latter has assumed a key role in the Cotonou Agreement and in ACP countries' development strategies. Advantages associated with regional integration are well known, triggering the creation of custom unions, FTA and even monetary unions around the globe. Wider markets, economies of scale, increases in trade and investment, better diversification and a migration towards the production of higher value added products, trading with a wider and higher number of trading partners are just some of the benefits related to regionalism.

3.1. Constraints to African Regional Integration Process

However, as Ferreira (2005:65) points out, and in what regards to regional integration in Africa, the process assumed more an expression of economic cooperation rather than a real regional market integration, as the economic theory of integration portends. In fact, not only did Africa's importance on international trade has diminished (as already put on evidence before), but the share of intra-regional trade within African regional organizations has also been kept at low levels, recording, according to UNECA (2008b) an average level of 9,56% within the 1996-2005 period.

Table 11: Africa's Intra-Africa and Multilateral Trade, 1994-2000

Item	1994	1995	1996	1997	1998	1999	2000	Average
Trade (% of GDP)								
Intra-Africa trade	8.0	8.5	8.8	8.3	8.3	8.3	8.8	8.4
Multilateral trade	49.3	49.5	49.7	45.6	51.2	50.9	58.0	50.6
Total trade	57.2	58.0	58.5	53.9	59.4	59.2	66.8	59.0
Growth in trade since 1994 (%)								
Intra-Africa trade	na	0.6	0.8	0.3	0.3	0.4	0.8	0.5
Multilateral trade	na	0.2	0.4	–3.6	1.9	1.6	8.7	1.5
Total trade	na	0.8	1.2	–3.3	2.2	2.0	9.6	2.1

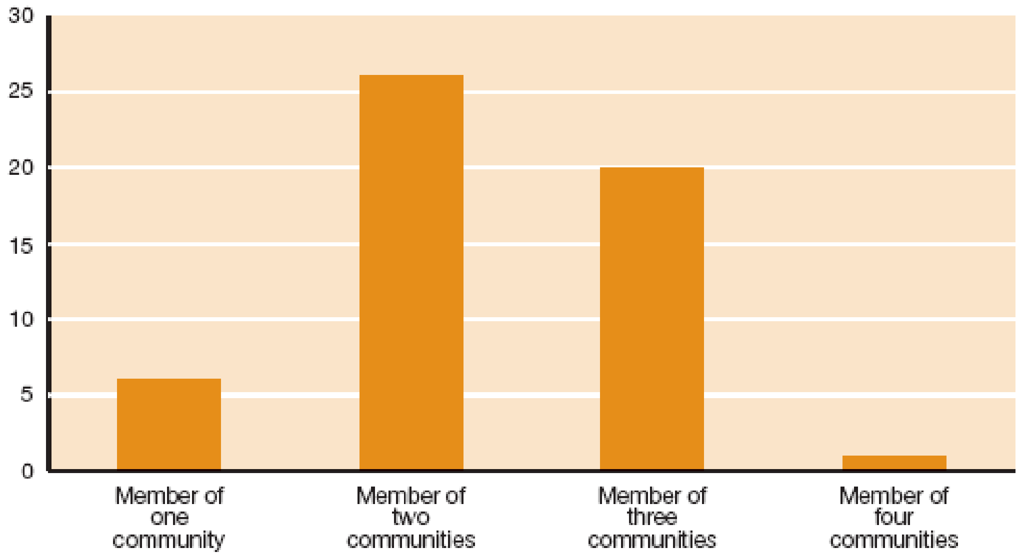
na is not applicable.

Source: UNECA (2003)

Whilst acknowledging that EPAs represent a deadlock to African countries regional integration, it is important to bear in mind that the African regional integration process in itself has met little progress since a wave of independences crossed the continent, back in the 60s. Obstacles to regional economic integration in Africa are numerous, holding an economic, political, social, cultural and even historical nature.

Aggregating contributions from different authors, Ferreira (2005: 74-76) comprehensively lists the major constraints to the African regional economic integration process as follows: a) lack of trade complementarities among partners; b) reduced market dimension and low production base diversification; c) poor infrastructure and transports capacities; d) high transport costs; e) high border trade costs; f) States' budget strong dependence on customs revenues; g) meagre private economic sector; h) overlapping membership of regional organizations; i) non-compliance with customs preferences schemes and adoption of protectionist policies; j) difficulties in conciliating economic and commercial liberalization policies, under the spirit of the integration agreements, with the measures adopted under the Structural and Adjustment Programmes (PAE); l) unequal distribution of costs and benefits; m) difficulties in coordinating economic policies given material differences in the economic structure of member countries; n) problems related to the lack of coordination of the tools of economic policy; o) gaps on industrial development levels and on the capacity to promote it, which lead to polarisation in intra-regional trade; p) small political will in promoting sound regional institutions; q) political instability; r) non respect of the rule of law) political conflicts amongst the States; t) hurdles in the work out of economic and politic systems; u) high donors' dependence; v) foreign countries' dominance over access to markets; x) unrealistic calendars.

Figure 7: African Countries Overlapping Membership in Regional Economic Communities (number of countries)



Source: UNECA (2003)

3.2. Large Differences of Tariffs among ACP Regional Blocks Negotiating EPAs

Widening back the scope of analysis towards ACP countries, the implementation of a common external tariff (CET) proves difficult because of the large differences in applied tariffs among the regional blocks negotiating EPAs. A L. Hinkle et al. (2005:269) study points out that average tariffs in the Eastern and Southern African (ESA) region show the highest heterogeneity, ranging from 4.6% in Madagascar to more than 20% in Burundi, Seychelles and Sudan, whilst the ECOWAS region tariffs are more homogeneous (with the exception of Nigeria) as one can see on the table below.

Table 12: Tariffs in ACP countries by EPAs Constellations

	Simple average		Simple average
Central African Group		**CARIFORUM Group**	
CEMAC		OECS	
Cameroon, Central African Republic, Chad, Congo (Rep.), *Gabon*, Equ. Guinea	18.0	*Antigua and Barbuda*	9.6
		Dominica	9.9
		Grenada	10.5
Sao Tome and Principe [a)]	n.a.	*St. Kitts and Nevis*	9.4
		St. Lucia	8.9
		St. Vincent and the Gren.	9.8
ECOWAS Group		*Bahamas, The*	30.6
UEMOA		*Barbados*	13.1
Benin, Burkina Faos, *Côte d'Ivoire*, Guinea-Bissau, Mali, Niger, Senegal, Togo	12.0	*Belize*	10.5
		Guyana	11.0
		Haiti	n.a.
Cape Verde	n.a.	*Jamaica*	7.2
The Gambia	12.7	*Suriname*	17.5
Ghana	13.1	*Trinidad and Tobago*	7.9
Guinea	6.5	*Dominican Republic*	8.5
Liberia	n.a.		
Nigeria	30.0	**Pacific Group**	
Sierra Leone	14.9	*Cook Islands*	n.a.
Mauritania [b)]	10.9	East Timor	n.a.
		Fiji	7.3
		Kiribati	n.a.
ESA Group		*Marshall Islands*	n.a.
EAC		*Micronisia*	n.a.
Kenya, Uganda	12.3	*Nauru*	n.a.
Burundi	23.4	*Niue*	n.a.
Comoros	n.a.	*Palau*	n.a.
Djibouti *a)*	30.8	*Papua New Guinea*	6.0
Congo, Dem. Rep.	12.0	Samoa	n.a.
Eritrea	7.9	Solomon Islands	22.2
Ethiopia	18.8	*Tonga*	n.a.
Madagascar	4.6	Tuvalu	n.a.
Malawi	13.1	Vanuatu	13.8
Mauritius	18.4		
Rwanda	17.4	**SADC Group**	
Seychelles	28.3	SACU	
Sudan	24.5	*Botswana*, Lesotho, *Namibia, Swaziland, South*	11.4
Zambia	14.0		
Zimbabwe	16.4	Angola	8.8
		Mozambique	12.1
		Tanzania (also EAC)	12.3

Note: Names of least developed countries are printed in roman type: non-LDCs are in italics.

a. Sao Tome is not a member of CEMAC.

b. Mauritania is not a member of ECOWAS.

Source: L. Hinkle et al. (2005:270). Compiled from UNSD COMTRADE and UNCRAD TRAINS data for most recent years available, expect as follows. Data for Djibouti, Fiji, Guinea, Rwanda, and the Solomon Islands are from WTO IDB. Data for Kenya, Tanzania and Uganda are from EAC Secretariat.

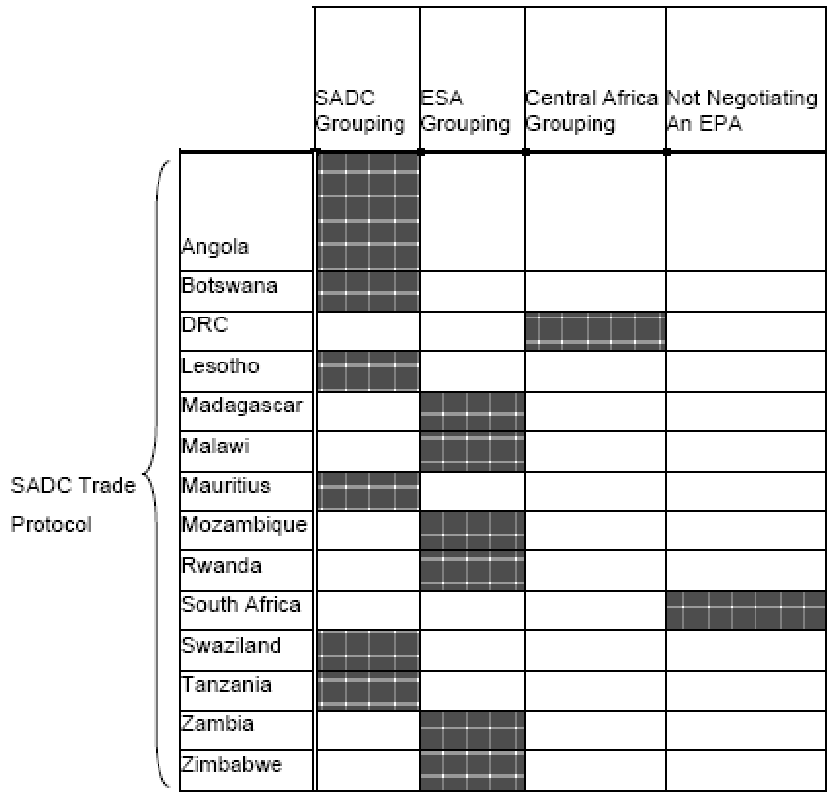
Differences at the structure of the tariffs protecting different categories of goods are also a point which complicates the implementation of a CET, as the latter portends convergence both at tariff average size and structure levels.

3.3. Full Regional EPAs Replaced by Bilateral EPAs?

The way EPAs are being negotiated should hinder intra-ACP trade. As no consensus is being reached on a regional basis and with EU forcing tight deadlines, regional EPAs are being replaced by bilateral EPAs, with all the negative consequences this portends to the regional integration movement. Oxfam (2008:7-8) cites the bilateral EPA agreements of Ghana and Côte d'Ivoire, in West Africa, which were quickly urged by EU after West African ministers called for a two-year extension of the negotiation period for a regional EPA deal in October 2007. In the case of Côte d'Ivoire the new text for a bilateral agreement was agreed within a two week period, without being subject to national or regional consultation and even key officials in Trade Ministry were left out of the consultation process, not to mention the country's stakeholders (farmers, workers, business groups) directly affected by it. Regional markets should open to EU exports once they have a reasonable level of consolidation, for the sake of regional integration.

EPAs negotiations are also hindering regional integration efforts at another level, as they force ACP countries to choose the block through which they want to negotiate. As mentioned above, overlapping membership is recurrent among African countries, so EPAs negotiations are forcing the break of regional groups. The Southern Africa Development Community (SADC) trade protocol is quite illustrative of such splintering, as six of its members opted to negotiate EPAs through Eastern and Southern Africa (ESA) Group, the Democratic Republic of Congo (RDC) opted for the Central Africa Group, whilst South Africa decided not to negotiate an EPA, as the country benefits from a free trade agreement with the EU – the Trade, Development and Co-operation Agreement (TDCA) (Oxfam 2006: 7-9).

Figure 8: Splintering the SADC Region



Source: Oxfam (2006:8)

Nevertheless, one of the topics that is gaining visibility refers to the harmonisation of the EPA process with regional integration initiatives at the ACP, which emphasises that after individual IEPAs have been initialled, the actors are now involved in concluding full regional agreements (EBCAM, 2008:2). This rhetoric intends to mitigate the risks that EPAs pose to the regional integration process, but it remains to be seen how successful the completion of regional EPAs will be.

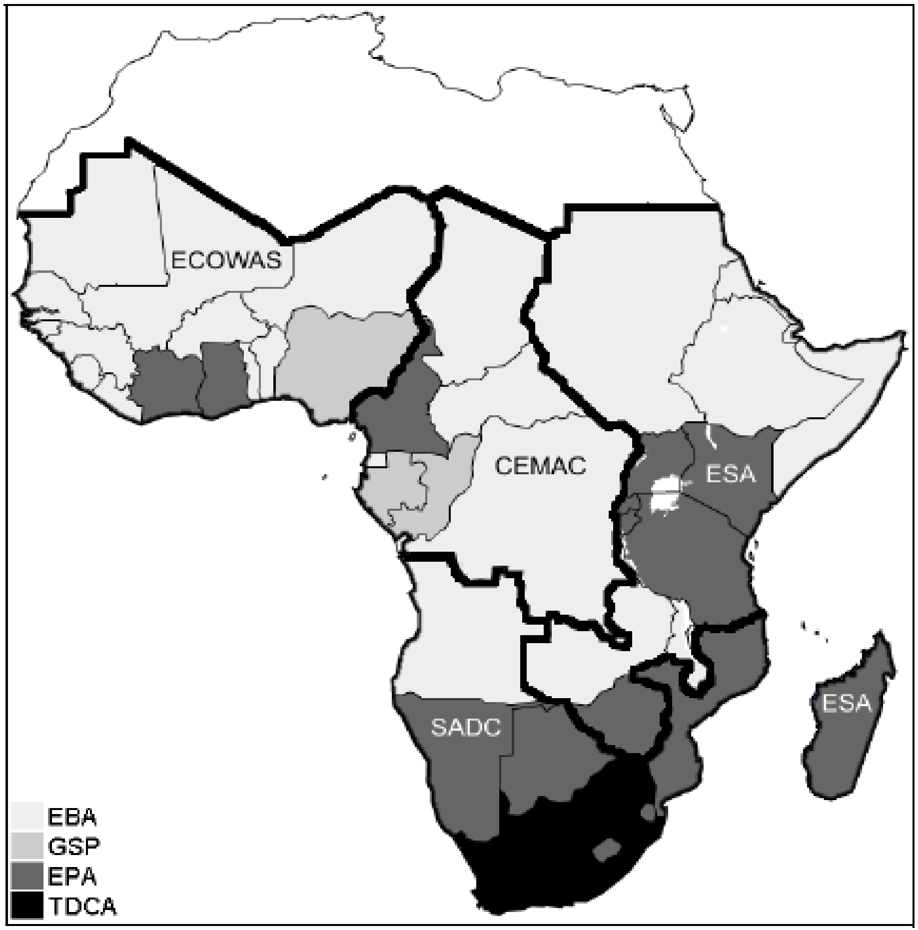
3.4. EPAs Agreements: Heterogeneity as a Ruling Word

The lack of harmonisation of liberalisation schedules that is being carried out, also due to many of the reasons stated above (heterogeneity of countries, State's strong dependence on tariff revenues, little diversified production base,…), should raise intra-regional trade barriers once the FTAs are on place. As countries opt for protecting different products and sectors from competition, the way to impede trade deflection is to reinforce time-consuming and costly border controls as well as stricter rules of origin, weakening therefore intra-regional trade. The same applies to the LDCs that choose to be out of the EPAs (and they have strong incentive on that), which will have to raise barriers against their neighbours in order to protect their markets (for these countries supporting costs with border control is far more burdensome). Oxfam (2006:9) notes that *"Intra-regional integration needs to be allowed to proceed at its own internally driven pace, not according to imposed, arbitrary timetables and progress targets, as the EC is currently attempting to do".*

Heterogeneity is the best word to describe African EPAs, as only one region, East African Community (EAC), has more than one country sharing the same commitments. The Common Market of Eastern and Southern Africa (COMESA) is also no exception on this matter, as Oxfam (2008:18) points out: *"(...) five countries have initialled the "EAC text" and have the same tariff schedules; another five have initialled a separate "ESA text" and each with different schedules; while six remaining countries have chosen to stay with Everything But Arms. This poses severe problems for the creation of a common external tariff."* Both ESA and EAC initialled IEPAs with the EC, though in the case of the first it referred to separate market access offers but a common text, and negotiations towards a full agreement, for each of the regions is taking place. According to EBCAM (2008:4), an ESA-EU interim agreement should be signed by the end of April 2009 and impending issues on the negotiation of a full EPA refer to provisions on trade in goods, trade in services, trade related issues as well as development support in line with a development matrix compiled in the region. EAC-EU negotiations regarding a full EPA also involve issues to be addressed, like the imposition of a duty or export tax in emergency cases, the MFN clause, technical barriers to trade, development cooperation, trade related issues and trade in services.

West Africa knows significant different liberalisation schemes among its country members currently negotiating EPAs (Côte d'Ivoire and Ghana initialled IEPAs provide evidence on this) (ECDPM, 2008/2009). Negotiations for a full regional EPA proceed and intend to be concluded by June 2009. The elaboration of a list of sensitive products and the adoption of ECOWAS CET are progressing, despite resistance, and provisions on trade in goods are about to be completed. Issues that still need to be addressed refer to RoO, trade in services and trade related issues. Furthermore, the region is elaborating an EPA development programme (PAPED) which intends to cover the development needs that result from an EPA (EBCAM, 2008:2-3).

Figure 9: Regional Disintegration in Africa?: "Initialled" Trade Regimes



Note: EBA is 'Everything But Arms'; GSP is 'Generalised System of Preferences'; EPA is 'Economic Partnership Agreement'; TDCA is Trade and Development Cooperation Agreement. The configurations refer to the EPA negotiating groups as agreed with Europe and are not consistent with the regional blocs of the same name; for example, the 'ECOWAS' negotiating bloc includes Mauritania while the 'SADC' bloc does not include all members of SADC.

Source: Oxfam (2008:18)

In Central Africa only Cameroon initialled an interim agreement and negotiations towards a full regional EPA proceed. *"(...) Outstanding issues include the Central*

African regional market access offer in goods, trade in services as well as development support in line with a Joint Orientation Document (JOD) on reinforcing production capacities and increasing economic competitiveness" (EBCAM, 2008:2).

In SADC, Botswana, Lesotho, Namibia, Swaziland (BLNS) and Mozambique initialled an interim agreement. South Africa did not join the agreement, notwithstanding the fact that it forms a custom union (SACU) with BLNS countries. An interim agreement was expected to be signed by the end of 2008 but it happened to be postponed because of the need to discuss internally (within the region) ways to move forward on outstanding market access offers on goods as well as on contentious issues in the IEPA text which could limit the use of trade policy to foster economic and human development, develop local service sectors and facilitate domestic regulation of service sectors. BLS countries are willing to sign the IEPA and move towards a regional EPA, but South Africa (coupled with Angola and Namibia) make it conditional on changes to the text. South Africa and The friction between EC and South Africa is growing, as the first indicated that EU intends to sign an IEPA with SADC states even if South Africa is left out, what, in practice, would lead to two trades regimes operating within SACU, something that clearly clashes with EU intention of fostering regional integration through EPAs. In what regards to negotiations on a full EPA, issues on trade in services and investment provisions remain to be addressed (EBCAM, 2008:3-4).

Caribbean countries have been the only able to negotiate a regional EPA with EU so far, but they are also having legal problems, because Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM), which is initialising the EPAs it is not a legal entity and its membership does not match Caribbean Community (CARICOM), the regional common market (Oxfam, 2008:18). Still, the EPA is being applied provisionally during the process of ratification by the European Parliament and the Caribbean and EU national parliaments. Haiti did not sign an EPA. In what refers to EPA implementation, CARIFORUM is preparing an EPA Implementation Road Map and a number of member states is setting up national implementation units. It has not yet been decided which organisation will be in charge of coordinating the implementation of EPA at the regional level but needs of EPA support are being studied, in line with the development provisions in the regional EPA text (EBCAM, 2008:4-5).

In Pacific Papua New Guinea and Fiji initialled IEPAs with the EU and negotiations towards a comprehensive regional EPA are taking place. The full EPA text is focused on trade in goods, fisheries and development cooperation. The region opted for a rendez-vous clause to negotiate trades in services later on.

An important step on African regional integration process was undertaken in October 2008, when three REC that account for a total of 26 countries, namely, EAC, SADC and COMESA decided to work towards a merger and task force is already working to establish a FTA, whose study will be submitted to the Tripartite Council of Ministers within the next 12 months (InBrief, 2008:8).

2nd PART

CHAPTER III

ACP COUNTRIES AT THE WTO: THE IMPLICATIONS OF EPAs

This Chapter calls attention to the fact that ACP countries are involved in a number of negotiation processes and how demanding this reality is for a region with marked shortage of human and technical capabilities (Section 1). In particular, it narrows the scope of analysis towards the negotiation process that is taking place under the WTO, in order to assess the links and potentials implications for EPAs (Sections 2 and 3). It then focuses on development assistance and its importance for EPAs; in particular researches into the potential articulation of EPAs and Aid for Trade (AfT), looking further into EU's Aft strategy (Section 4).

1. ACP Countries Involved in a Number of Negotiations Roundtables – Are they Prepared?

ACP countries are involved in two important negotiations roundtables for their trade and agricultural policies– those of a multilateral basis at the World Trade Organization (WTO) level and bilateral negotiations with the European Union (EU) under the score of Economic Partnership Agreements (EPA), the primary focus of this dissertation. Apart from this, ACP countries also have to deal with their own regional integration processes, which in the case of African countries, as seen in the Chapter II, assumes a rather complex nature, facing significant constraints. Managing so many negotiations processes demands high human and technical capabilities, areas in which most of these countries holds a deficit given the structural weaknesses of their education and health sectors[25], which are further weighed down by the perpetuation of the brain drain phenomena.

1.1. EU and ACP Countries: Unequal Partners

EPAs have been criticized for representing a negotiation process conducted between two very unequal partners. Working throughout World Bank's economic statistics Oxfam (2006:2) produced the table shown below, which illustrates the asymmetric nature of EPAs negotiations, with ACP countries total GDP accounting for only 3,2% of EU's $13,300 billion GDP in 2005. This means that EU 2005 GDP was 31 times higher than ACP countries' total GDP, with the ratio jumping up to 1,414 times if narrowing the scope of our analysis towards the Pacific Islands. The discrepancies in the sizes of these two regions have a direct impact over respective bargaining power in EPA negotiations, especially because, as seen on Chapter II, what was expected to be regional agreements for FTA gave room to bilateral agreements between the EU and individual ACP countries.

[25] A poor health sector and related poor health conditions are reflected in high work absenteeism, particularly in SSA countries, which ultimately affects the competitiveness of the economy. As Stiglitz (2006:66) points out *"Countries often hope that trade agreements will boost foreign investment and create jobs. But when companies make investment decisions they look at many factors, including the quality of the workforce, infrastructure, location, and political and social stability".*

Table 13: Unequal Partners in Trade

EPA	GDP 2005 (billion US$)	Per cent of EU GDP[I]	Ratio to EU GDP
EU	13,300		
SADC	66	0.50	200
ESA[II]	75	0.56	178
West Africa	162	1.22	82
Central Africa	40	0.30	330
Caribbean	72	0.54	185
Pacific[III]	9	0.07	1,414
Total EPA	**425**	**3.20**	**31**

Notes: [I] Data given to two decimal places.
[II] Eastern and Southern Africa.
[III] Data unavailable for Cook Islands, Nauru, Niue and Tuvalu

Source: World Bank 2005 (cited in Oxfam, 2006: 3)

1.2. Negotiations Pace: EPA's Moving Faster than WTO's

The observation of undergoing WTO and EPA's negotiations, suggests a far more flexible timetable at the multilateral forum in comparison to ACP countries/EU (bilateral or regional) agreements, as multilateral negotiations have faced several deadlocks so far, whilst the EU, on the contrary, is speeding up negotiations to an unprecedented level, insisting in more rigid and tight deadlines whilst accepting interim agreements as a transitional phase (Alpha et al., 2005: 5-7). Because EPA's are advancing more quickly than WTO negotiations, the scope of some of the few final agreements signed could weaken ACP countries position in multilateral negotiations.

1.3. Asymmetric Enforcement at WTO

EPAs are being urged by the WTO, as this multilateral organisation is on charge of defining and overseeing the rules of the game of trade worldwide and therefore of each trade agreements that falls under its umbrella. According to WTO Aid for Trade fact sheet *"(...)WTO is a global trade body, and it has a clear role and responsibility for ensuring that countries can effectively participate in – and benefit from – world trade"*. Nonetheless, it has to be noted that the WTO trade rules result from bargaining between rich and poor countries and the WTO does not directly guarantees their enforcement. What the international organization allows is for injured countries to retaliate and impose trade restrictions over the offender country. As Stiglitz (2006:76) notes, in practice, this translates into *"asymmetric enforcement"* as the size of a country can ultimately determine the impact of its retaliation, and as such its bargaining power.

2. WTO Agenda – Evolving on Which Direction?

Since 2000, ACP countries have participated in the renegotiation of the agricultural agreement, implemented in 1995, in the quality of WTO members. These negotiations, undergoing under the Doha Development Agenda, involve the three principal pillars of the agricultural agreement: improving market access by reducing tariff and non-tariff barriers; control over the use of domestic supports to farmers in order to avoid markets distortions; and disciplines towards the use of exports' supports. They constitute important tools for the guard of ACP countries' interests in terms of trade and agricultural policies and as such, as Alpha et al. (2005: 5) note, their articulation with the ongoing EPA's negotiations is a must.

2.1. Trade Liberalization Moving Into Services and Intellectual Property Rights

It's not only agricultural issues that call for ACP countries full attention at the multilateral forum, though the sector does play an important role on those economies. Indeed, Stiglitz (2006:75-77) points out that the ongoing negotiations at the multilateral level are introducing news issues for debate, mostly of the interest of the developed world. The author acknowledges that the General Agreement on Tariffs and Trade (GATT)[26] was focused on reducing tariffs on manufactured goods, the comparative advantage of developed economies by then. The agreement which would replace GATT on April 15th, 1994 – the WTO[27] - expanded the scope of trade agreements to areas like services[28] and intellectual property rights, the current comparative advantage of advanced economies. Services, which were not included in the agenda by the time of the GATT trade negotiations, represent now *"(...) over 70% of America's economy and nearly that in Europe and Japan"* whilst manufacturing accounts only for 11% of American employment and output.

The negotiations that preceded WTO launch - the Uruguay Round - were known as the "Great Bargain", and held the promise, by the developed world, to liberalize trade and textiles and in turn developing countries would accept and comply with new rules on services, property rights and investments. Developed countries promise felt short of expectations, textiles quotas lasted for a decade and agricultural subsidies remain a practice, which led to WTO Director General Pascal growing criticism towards such measures, voicing the need to turn agriculture trade fairer to developing economies. Stiglitz (2006:78) writes on the asymmetries resulting from the Uruguay Round, noting that *"(...) sub-Saharan Africa, the poorest region with an average income of just $500 per capita per year, lost some $1.2 billion a year"* and noting that *"seventy percent of the gains went to the developed countries – some $350 billion annually",* with the remaining 30% of the benefits mostly ripped by middle-income economies like Brazil.

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[26] The General Agreement on Tariffs and Trade (GATT) was formed in 1947 to lead trade negotiations. After the World War II, the Bretton Woods Conference introduced the idea of creating the International Monetary Fund (IMF) to enhance financial stability but also establish an organization to regulate trade, the International Trade Organization (ITO), as part of a larger plan to bolster the economic recovery. The USA rejected this latter proposal in 1950, so once this failed only the GATT agreement was left. 45 years would have to pass before the WTO would come into effect.

[27] The Uruguay Round negotiations began in Punta del Este, Uruguay, in September 1986, and were concluded by the signature of an agreement in Marrakech on April 15th, 1994, which would give body to the WTO, with 149 member states against 128 member countries of GATT by the replacement time.

[28] Comprises the liberalisation of skilled labour services, the comparative advantage of advanced economies, instead of unskilled labour services, which would work to the benefit of the developing world.

A work of Wade dated from 2003 alerts to the risks international regulations pose to the development policy options of developing countries. According to Wade (2003:1), Uruguay Round agreements on investment measures (TRIMS), on trade in services (GATS) and on intellectual property rights (TRIPS) are harmful for developing countries interests; the first two because they limit government's power exercise over companies already operating or with prospects of operating in their country whilst the third proposes a strong defence of foreign companies' property rights against thievery by domestic firms. *"(...) Together the agreements make comprehensively illegal many of the industrial policy instruments used in the successful East Asian developers to nurture their own firms, industries and technological capacities. They are likely to lock in the position of western countries at the top of the world hierarchy of wealth"* (this latter issue will be more deeply developed on Chapter IV).

2.2. Doha Development Round Fails to Deliver Its Promise

In face of developing world discontentment towards the "Great Bargain", another round of negotiations took place in 2001 - the Doha round in Qatar - aimed at introducing development issues at the centre of discussion. But it would take just two years before negotiations stalled, as developed countries kept on subsidizing their agriculture sector whilst demanding great liberalization efforts from developing countries. The Hong Kong meeting back in December 2005 didn't make much progress on the development round either, nor did the meetings that followed suit, corroborating Stiglitz (2006:81) view that *"(...) the scale of reforms is so low that it is likely to matter little"* to developing countries.

3. Could EPAs Undermine ACP Countries' Position in Multilateral Negotiations?

ACP countries account for approximately 50% of all WTO membership. Therefore the bilateral agreements under negotiation with the EU should weight in the multilateral trading system, turning it more puzzling. One of the charges made to EPAs is on the scope of issues targeted for liberalisation, which goes far beyond what WTO liberalization agenda foresees. On this front, Oxfam (2008:10) concludes that in almost every single area of negotiation - from trade in agricultural and industrial products, trade in services, intellectual property, investment, competition, government procurement to aid for trade - EPAs go far beyond WTO provisions, at the expense of ACP countries interests.

If EPAs are to be implemented with the extension and timetable imposed by the EU, in practice this means the developing world will lose many of the *"(...) the flexibilities they have fought for in the Doha Development Round"* (Oxfam 2008:8). Groups such as G90 Developing Countries, the LDC and the Small and Vulnerable Economies should see their voice weakening at the WTO forum. Furthermore, limitations should also be imposed on South-South integration as EU is calling for the MFNP application, which forces ACP countries to extend the benefits they offer to other developing countries to Europe as well. Brazil already raised its voice against this provision at the multilateral forum, an initiative that was also backed by China and India, as these countries represent increasingly important markets to ACP countries exports.

As one can see from the table below, the full regional EPA initialled by Caribbean do far beyond WTO's provisions.

Table 14: EPAs and the WTO: Death Blow to development in the Doha Round

Area of negotiation	Doha Round proposals	Full EPA (as initialled by the Caribbean)
Trade in agricultural and industrial products	Least-developed countries exempted from tariff cuts. Formula for cutting tariffs builds in some asymmetry for developing countries' needs. Proposed Special Safeguard Mechanism and 'Special Products' would provide limited protection to vulnerable developing-country producers.	All ACP countries eliminate *applied* tariffs on 80–98 per cent of trade with Europe. No sector exempted. Safeguards are weaker than the Special Safeguard Mechanism proposed at WTO.
Trade in services	Developing countries are required to make further market access and national treatment commitments than currently made under GATS, but least-developed countries are under no obligation to make further commitments this round.[38]	Least-developed and developing countries make commitments that go substantially beyond existing GATS commitments in terms of opening and regulations.
Intellectual property	Developing countries implement TRIPS by 2005; least-developed countries implement TRIPS by 2013.[39]	Both developing and least-developed countries agree to level of intellectual property rules and mechanisms for enforcement far beyond TRIPS.
Investment	Negotiations on an investment agreement were taken off the Doha agenda at the Cancun Ministerial in 2003. Least-developed countries have flexibility to introduce new measures that are inconsistent with the already existing TRIMS agreement. These have to be notified and will be positively considered.[40]	Far-reaching provisions beyond current WTO obligations require ACP to open up markets and treat foreign investors like local ones.
Competition	Negotiations on competition were taken off the Doha agenda at the Cancun Ministerial in 2003.	Substantive commitments to enforce competition policies, including in the area of services trade.
Government procurement	A plurilateral agreement on government procurement exists, but no ACP country is a party to this agreement. Negotiations on further commitments in the area of transparency in government procurement were taken off the Doha agenda in 2003.	Substantive commitments on transparency and to negotiate subsequent opening of government procurement markets.
Aid for trade	Europe has pledged €2bn to help developing countries meet costs of adjusting to outcome of Doha negotiations and EPAs.	No additional commitments beyond those made at WTO, and part of the already committed European Development Fund.

Source: Oxfam (2008: 10)

As WTO negotiations hold a more flexible calendar than that of EPAs, it is important that this latter deliver a result aligned with WTO rules and which defends ACP countries interests at the multilateral forum.

4. The Importance of Development Assistance - Aid for Trade Initiative Gains Momentum

One of the issues that have raised substantial controversy within EPAs negotiations regards to development assistance and respective financing as a measure to foster the implementation of EPAs. Despite the successive calls by ACP countries for this kind of financial support to be included in negotiations, the EU has used a rather defensive rhetoric stating that: a) EPAs negotiations, as foreseen in the Cotonou Agreement, focus on trade related issues and not on development financing; b) development assistance is already covered by the European Development Fund (EDF); c) the European Commission was not mandated by EU's member states to negotiate or close agreements in the area of development assistance under the framework of EPAs. However, as recognition on the need of financial assistance to help developing countries integrate into the global economy and rip the benefits out of trade liberalization grew, the European General Affairs and External Relations Council (GAERC) decided on the 16-17 October 2006 to address EPA-related adjustment needs under the broader framework of Aid-for-Trade (AfT). It must be highlighted; however, that AfT is not conditional on the conclusion of EPAs (ECPDM, 2006b:1).

In light of ACP countries' structural constraints mentioned on Chapter I, development assistance grows of importance, leading WTO's director general Pascal Lamy to call attention on the role AfT can perform in overcoming such struggles: *"Aid for Trade aims at improving the capacity of developing countries to reap the benefits of more open trade. For some developing members this will mean setting up testing facilities and reliable institutions to help to ensure that exported products meet the technical, sanitary and phytosanitary regulations and standards of export markets. For some others it would mean larger-scale projects such as improving transport infrastructure and trade logistics".* Pascal Lamy speech at July 2nd, 2007.

4.1. What is Aid for Trade?

The AfT initiative was launched at the WTO Ministerial Conference in Hong Kong in December 2005. AfT initiatives intend to help developing countries build their capacity in order to benefit from international trade; they aim at putting trade at the centre of national strategies and policies. WTO holds a "Coherence Mandate" which recognizes the international organization *"(...) responsibility for promoting coherence in global economic policy making and for working with the World Bank, the IMF, and other international actors to deliver more coordinated international policy. Aid for Trade is a clear test of this mandate" (*WTO Aid for Trade fact sheet).

The primary premise of AfT is that it can promote growth and reduce poverty through trade promotion. However, for it to happen it is necessary to remove the barriers that impede the developing world from benefiting from the world trading system. Tariff and non-tariff barriers play an important role, but AfT gives special attention to internal barriers referring to lack of knowledge, inadequate financing and poor infrastructure – the so called supply-side constraints. According to the WTO (AfT Fact sheet) AfT encompasses four primary dimensions: technical assistance on trade strategies development, negotiation and implementation of agreements (trade policy and regulation); economic infrastructure building (roads, ports, energy networks, telecommunications that link domestic to international markets); productive capacity building targeting industries and sectors that yield comparative advantages, improve countries' competitiveness as well as fostering export diversification; adjustment assistance to help managing transition costs from liberalization – fiscal revenue losses, preference erosion and declining terms of trade.

Figure 10: WTO's Types of AfT

Trade Related Assistance (TRA):
1) Trade policy and regulations (e.g. trade policy and planning, trade facilitation, regional trade agreements etc.);
2) Trade development (e.g. investment promotion, analysis/institutional support for trade in services, market analysis and development, etc.);

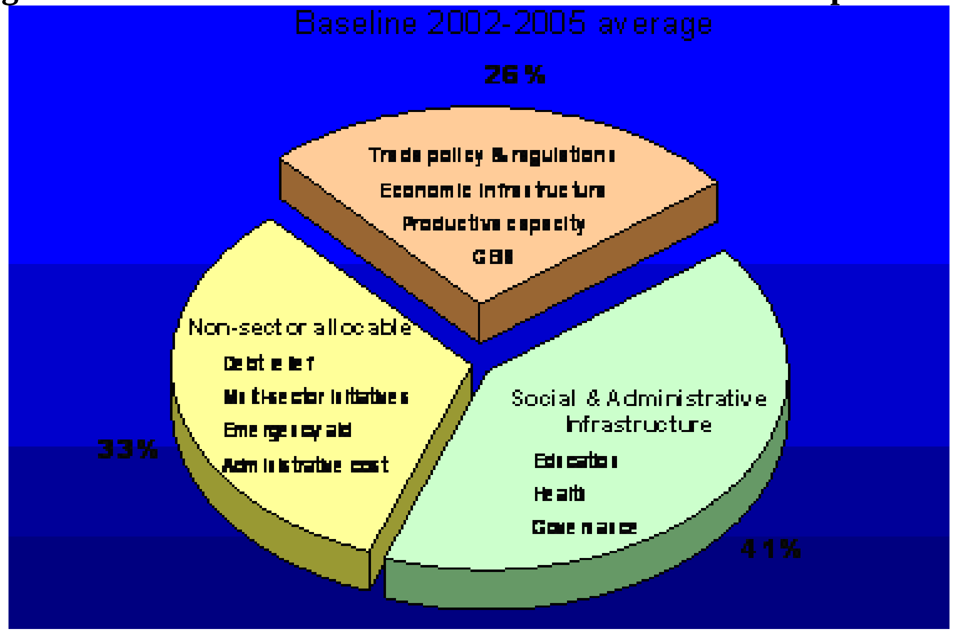
Wider AfT agenda:
3) Trade-related infrastructure (e.g. physical infrastructure including transport and storage, communications and energy generation and supply; etc.);
4) Building productive capacity (e.g. business development, assistance to banking and financial services, agriculture, forestry, fishing, industry, mineral resources and mining, tourism, etc.);
5) Trade-related adjustment (e.g. contributions to government budget for implementation of recipients own trade reforms and adjustments to trade policy measures by other countries);
6) Other trade-related needs: other trade related support not captured under the categories above.

Source: WTO AfT Task force (cited in EC, 2008:2)

AfT (WTO AfT presentation) will only be made available for those countries that consider trade a priority in their development strategy. As the WTO AfT Task Force stated in 2006 *"Projects and programmes should be considered as Aid for Trade if these activities have been identified as trade-related development priorities in the recipient country's national development strategies"*. A demand-driven approach safeguards the ownership principle, noting that recipient countries should determine their Aft needs through the involvement of all stakeholders. Aid effectiveness principles are also to be safeguarded as AfT proposes itself to be results – oriented. Cooperation between donor and recipient countries is highly encouraged as well a strong involvement from the private sector, as this is the sector that is most involve in trade.

AfT is part of the Overall Development Assistance (ODA) and it should be seen, according to WTO, as a complement to trade opening. According to OECD, trade-related ODA accounted for 26% of ODA over the 2002-2005 period. The figure below illustrates the breakdown of trade-related ODA back in 2005.

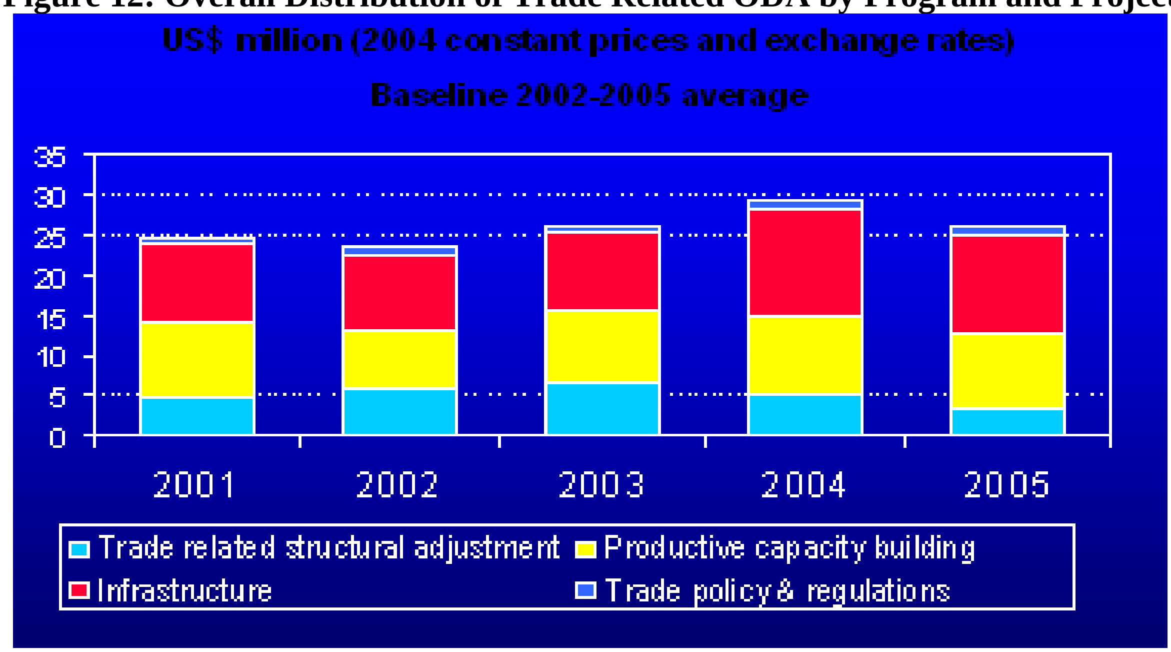
Figure 11: Share of Trade Related ODA in Overall Development Aid



Source: OECD (cited in WTO AfT presentation)

The gross of AfT is disbursed bilaterally by donors or through multilateral and regional finance and development organisations, like the World Bank or regional development banks. WTO points out that AfT should not divert resources away from other development priorities, so it should indeed take the form of new resources.

Figure 12: Overall Distribution of Trade Related ODA by Program and Project



Source: OECD (cited in WTO AfT presentation)

4.2. Will AfT Deliver on Its Promise?

One of the challenges of AfT initiative is to be aware if it will become an important aid tool as it gains visibility and receives growing consensus towards its use or whether it will be "business as usual". The 2005 Hong Kong Ministerial Meeting focused on the operationalization of AfT and on ways to improve it. Director General Pascal Lamy launched a Task Force to act on this front working on the recommendations that were mentioned on section 4.2. of this Chapter. Is was also suggested better monitoring and evaluation of AfT by the WTO, which should happen at three different levels: i) global monitoring by OECD (as this latter holds an important role in what regards to ODA monitoring); ii) self-evaluations by donors; iii) self-assessments by recipient countries. The results from this monitoring work are then compiled in an annual Report (WTO Aid for Trade fact sheet).

WTO Director General Pascal Lamy worded on the need to encourage AfT in order to foster development, illustrating with Kenya's flower export sector example, where EU €5 million AfT investments helped the industry to use pesticide and step into US and European markets, turning into one of the world's leading exporters. Exports overcame US$700 million in 2006, employing two million workers, 80% of which generated by small-scale farms. It is important to highlight though, that the success of AfT in Kenya's flower sector rests, to a large extent, on the fact that industrialised countries do not subsidise their flower domestic industry (ECPDM, 2007:9). According to WTO AfT presentation, in Sub-Saharan Africa annual infrastructure needs stand at US$17-22bn a year against spending of around US$10bn. Furthermore, if Africa enjoyed the same share of world exports today as it did in 1980, exports would be US$119bn higher, i.e. 5 times current aid flows.

4.3. EU Strategy on Aid for Trade

It was at the 2002 United Nations Conference on Financing for Development in Monterrey that trade importance for development was emphasised by the international community. The 2005 European Consensus on Development articulates trade and development recognizing it as key to development policies aimed at achieve the Millennium Development Goals (MDG).

On the 15th October 2007 the EU adopted the so-called "EU Strategy on Aid for Trade", through which committed itself to increase the annual spending on trade-related assistance by 2010 to €2 billion annually, €1 billion of which provided by EU member states and the other half by EC. Around 50% of the funds will be directed to ACP countries, which should translate into an increase of €300-400 million a year. This move should be squared within the Doha Round, as the strategy was agreed one month before the WTO's "global review" on AfT in Geneva on November 20-21.

The outcome of the "global review" at the multilateral level was rather disappointing as did not comprise a new aid envelope or specific delivery mechanisms for AfT initiative (ECDPM, 2007/2008:16-17). The same happens with EU Strategy on AfT, which is considered part of EC ODA and, as such, is financed under the regular Community budget and the EDF. This latter count with a financial allocation of €22.682 million for the 2008-2013 period.*"(...) the Community budget does not include specific, identifiable budget articles on "Aid for Trade", except one regarding multilateral trade policy actions. The EC AfT can therefore only be identified through ex post analysis of programmes programmed."* (EC, 2008:4)

As such, on EC's fact sheet on Aid for Trade, dated 1st October 2008 was noted that EU provides around 1/3 of total ODA flows and around 15% to 20% of the EU development assistance is directed towards AfT activities. EU's overall AfT amounted to €7.28 billion in 2006, from which €2.56 billion through the European Commission and the remaining €4.71bn through members states. EC compared this figure to an average of €5.10 billion of AFT granted by EU within the 2001-2004 period and €6.56bn in 2005.

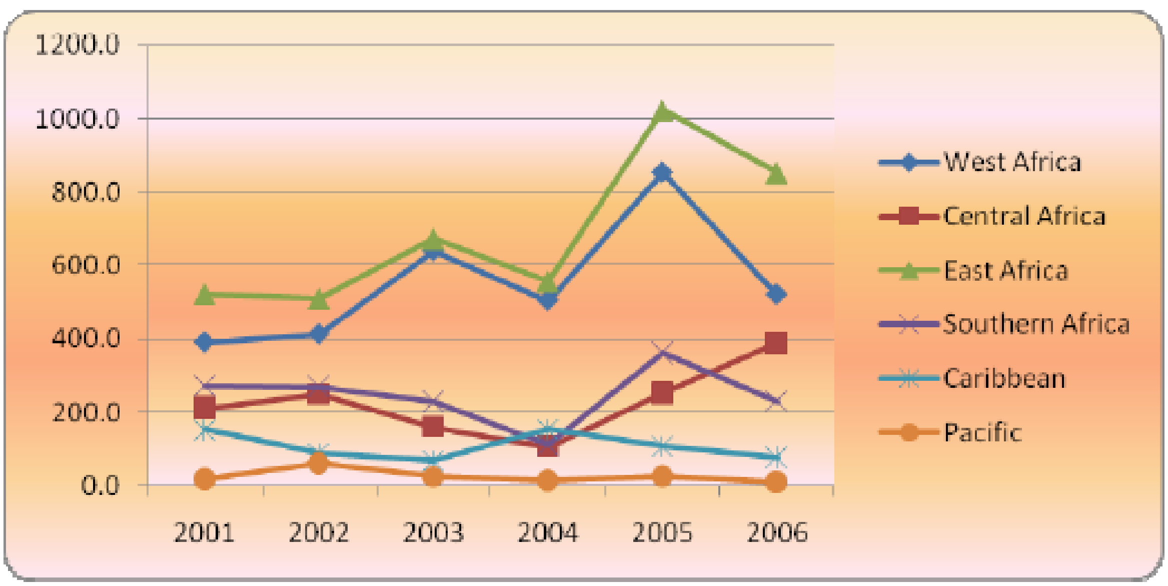
Table 15: EU Aid for Trade Commitments (2001-2006)

EC & MS	2001	2002	2003	2004	2005	2006	Total	Average	% 2006	% 2001-2006
TPR	68	194	236	146	229	484	1,358	226	7	4
TRI	2,303	2,269	2,551	2,166	3,451	3,255	15,995	2,666	45	47
BPC	2,785	2,747	2,486	2,458	2,879	3,539	16,894	2,816	49	49
Total	5,156	5,210	5,273	4,771	6,560	7,279	34,247	5,708	100	100
%	15	15	15	14	19	21	100			

Source: OECD-CRS (cited in CEC, 2008: 17), EU Member States: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom. TPR stands for Trade Policy and Regulation; TRI for Trade-Related Infrastructure and BPC for Building Productive Capacities (which includes Trade Development).

EU's AfT flows are channelled primarily to SSA (39.5%), followed by Asia and the Pacific (27.9%), with the remaining pretty evenly distributed among Mediterranean, Europe and Latin America & Caribbean. CEC (2008:25) estimates that 43% of EU's total AfT commitments over 2001-2006 were provided to ACP countries.

Figure 13: EU AfT commitments to ACP regions (2001-2006)



Source: CEC (2008:26)

It is important to stress out, however, that commitments do not represent effective aid delivery and if one wants to assess aid effectiveness it has to dig into the assistance funds that has effectively been disbursed. Oxfam (2006:9-10) underlines the discrepancy between EU promised aid (channelled through EDF over five-year cycles) and the money actually disbursed. This mismatch is evident on last cycle 2001-2006, when EU promised €15bn in aid to ACP countries but only 28% were actually disbursed, on the 1995-2000 (8th EDF) only 20% were disbursed and the same reality applies to other EDF assistance packages.

Table 16: Funds Allocated and Spent During Each Fiver-year Financing Cycle (million €)

EDF assistance package	Funds allocated during the five-year envelope (nominal value)	Real value of envelope (1975 base year)	Disbursements in the five years to which the envelope was allocated (nominal value)	Percentage of total allocation disbursed in the five years to which it was allocated (nearest per cent)
4th EDF (1975–80)	3,390	2,696	1,454.5	43
5th EDF (1980–85)	5,227	2,586	2,041.0	39
6th EDF (1985–90)	8,400	3,264	3,341.6	40
7th EDF (1990–95)	12,000	3,514	4,417.9	37
8th EDF (1995–2000)	14,625	3,463	2,921.6	20
9th EDF (2000–07)	15,200	3,131	4,239.0	28

Source: Grynberg, R. and Clarke, A (2006)[29] (cited in Oxfam 2006:10)

Aware of the flaws of EU's disbursement mechanisms ACP governments have called for a separate and additional EPA financing facility, but without success, as already mentioned above. The EU decided instead to increase the amount under the 10th EDF funding cycle (2008-2013) up to €22.8bn, but remains to be seen if and to which speed will this promise turn into money disbursement.

[29] Grynberg, R. and Clarke, A (2006) "The European Development Fund and Economic Partnership Agreements", Commonwealth Secretariat, Economic Affairs Division.

4.2.1. Relying Too Much on “Best-Endeavour” Terminology

The EU Strategy has the purpose of enhancing the pro-poor focus, improve the quality of AfT and rise EU’s capacity to provide this kind of aid. It applies the same principles and guidelines to every contributor (EC and EU member states), sharing EU commitments on policy coherence, enhancing division of labour as well as the Paris Declaration on Aid Effectiveness. Nonetheless, the Strategy falls short of expectations in what regards to financial resources, as these will be entirely dependent on voluntary contribution from donors, relying too much on “best-endeavour” terminology. This could prove to be a problem as it implies a significant increase in EU member states contributions by 2010 whereas the 2008-2013 10th EDF negotiated by EC puts AfT contribution already close to that level. The quality of trade-related financing is therefore being put in question (ECDPM, 2007/2008:16-17).

4.2.2. No New Aid Envelope or Specific AfT Delivery Mechanisms

ACP recipient countries are worried and would like to see guaranteed that EU’s AfT initiatives involve new resources in addition to those that are channelled through the EDF. The regional programming of the 10th EDF focuses on regional integration and trade (including EPA support) and envisaged regional strategy papers and indicative programmes for each of the six ACP regions cooperating with the EU. The EC suggested so-called regional AfT packages, which, as mentioned above, do not comprise additional financial resources at the regional level but instead aim at increase the link between the process of regional integration and EPA support, and also the link of the first to donor coordination. EC’s initiative on regional AfT packages intends to provide *“(...) an effective, coherent and concrete EU response to needs and priorities expressed by the ACP countries and regions, including in national and regional development plans, and to foster coordination among all donors and recipients”*[30]. This raises, however, an

[30] Doc 9629/08 – paragraph 9 of the EU Council Conclusions on May 27 2008 (cited in (ECPDM, 2008b: 10).

interesting question: how will AfT packages increase the link between the process of regional integration and EPA support, if the EPA negotiation process in itself is working, in many cases, as a deadlock to the regional integration process?

4.2.3. The Ownership Principle

The Strategy is demand-driven (in line with WTO guidelines) and as such recipient countries will have to take the lead and identify priorities and promote initiatives, squared within a national development strategy – AfT is has to be taken as a priority in the so called Country or Regional Strategy Papers – CSPs/RSPs. Trade-related support can only be made available if *"(...) the country concerned considers it to be essential to its own national development agenda. Therefore, the particular challenge in fulfilling the commitments undertaken in the EU's AfT strategy is about how to create solid demand in Aid for Trade"* (EC, 2008:5).

According to Rose Tiemoko[31] (ECPDM, 2007:9) AfT priorities in Africa relate to strengthen public and private institutional and human resources (either at the national as at the regional level), improving and expanding infrastructures, trade facilitation (and coordination of trade promotion strategies) and enhancing regulations. The author stresses out the need to reassure the coherence of strategies as well as the articulation with the regional integration process, calling for the involvement of development banks in what regards to encouraging and promoting regional projects and infrastructure policy, adding that these could be one of the channels through which AfT could be delivered.

[31] Rose Timoko is an ILEAP/JEICP consultant, responsible for representing trade matters at the UEMOA Commission. (JEICP stands for "Economistes Internationaux Contre la Pauvreté" or International Economists against Poverty).

4.2.4. The Alignment Principle

This is one of the areas which is raising significant controversy, as EPAs negotiations are working more as a deadlock to African regional integration process, as seen on Chapter II. Planning documents from regional organisations (strategies, operational plans or procedures) should be respected and applied even as this requests adaptation from donor countries. Birgit Hofmann[32] (ECPDM, 2008b: 10) calls on the need to enhance coordination between donors themselves and ACP countries regarding the targeted sectors, noting that EU Commission could be pivotal at this level as it is actively involved in important development areas in the different ACP regions, providing therefore an central contribution to improve aid effectiveness.

To sum up, EPAs negotiation process is advancing more quickly and has been imposed a tighter deadline than WTO's roundtable. Furthermore, evidence suggest that it envisages a wider agenda in terms of scope, demanding therefore extra careful and thought on the way ACP countries negotiate EPAs, as these could cap ACP countries bargaining power at the WTO forum as well as their competitive position in the global economy.

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[32] Birgit Hoffman Works in German federal Ministry for Economic Cooperation and Development (BMZ), Division 315 – Globalisation, Trade and Investment.

CHAPTER IV

TRADE AND DEVELOPMENT: IMPLICATIONS FOR EPAs

The EU is pressuring ACP countries towards fast liberalization, under EPAs negotiations running course. This Chapter tries to evaluate whether protectionism is counterproductive for development or if, on the contrary, it can yield it when adopted at the elementary phases of the development process. To support this latter view it first analyses arguments used in support and against free trade (Section 1). It then moves to the analysis of Ha-Joon Chang historical approach towards development, which provides evidence that in the past, current developed economies on their run to development also embraced for trade restrictiveness and industry promotion policies; additionally, it approaches other two authors - Robert Wade and Alice Amsden - whose work conclusions point on the same direction (Section 2). Once consolidated this background it builds a bridge with EPAs, proposing the identification of initiatives and tools ACP countries can adopt to better protect their interests at the ongoing negotiations (Section 3).

1. Arguments in Favour and Against Free Trade

Krugman (2005:163-171) develops on three major arguments economists present in favour of free trade: (i) free trade avoids efficiency losses related to protection, according to theoretical models on cost-benefit analysis, increasing the national welfare; (ii) other benefits apart from those related to the elimination of distortions on production and consumption; (iii) even if not perfect, free trade is better than any other policy the government might adopt. Some economists encounter additional gains from free trade, beyond the traditional cost-benefit analysis, related to economies of scale enjoyed by small countries' as result of free trade (the rational is that protectionist measures foster the proliferation of industries and scale production inefficiencies). Furthermore, free trade is often seen as a higher facilitator of learning and innovation than an “administered” system, as it encouragers entrepreneurship to compete internationally. There is also a political argument in favour of free trade and which is related to the fact that trade policies are more influenced by special interests than by domestic cost-benefit considerations. Under this line of thought free trade comes as the first option even if in a purely economic ground it does not prove to be the most adequate policy.

In what regards to the arguments against free trade, the author mentions the argument of terms of trade, according to which in the case of a small enough tariff the benefits of terms of trade outweigh the costs, leading therefore to higher national welfare than in the case of free trade. One of the criticisms made to this argument is that it should prove of little use for small countries, as these have little capacity of affecting the prices of either its imports as exports. The other argument against free trade rests on the questioning of the accurateness of concepts of producer and consumer surplus as ways to quantify benefits and costs; it says that the producer surplus does not quantify properly the benefits resulting from the production of a good whenever there are domestic markets failures. This view is intertwined with the second best theory according to which free trade policies are only desirable as long as all markets function adequately, other wise the Government’s intervention might contribute to the national welfare increase. On this front the author notes that in developing economies market failures are indeed significant, what seems to provide support for greater Government intervention. The discussion proceeds with defenders of free trade arguing that economists can not diagnose market failures well enough in order to prescribe economic policies. The correction of market failures should be done as directly as possible because of the indirect results of economic policies, which might portend unintended distortions of incentives in other economic sectors. This is where the political rhetoric feeds into, as if market failures aren’t that bad after all, politicians might opt for free trade policies as the selection the second best policy might prove to be a burdensome task.

2. Does Trade Restrictiveness Caps Development?

It is not surprising that developing countries, particularly low and middle income economies, are the ones holding the highest protectionism (as illustrated on Chapter I). In the past, economies on their way to development also embraced trade restrictiveness policies. On its historical approach towards development, Chang (2003:1-3) notes that *"(...) when they were developing countries themselves, virtually all of today's developed countries did not practice free trade (and laissez-faire industrial policy as its domestic counterpart)"*. The author goes even further by noting that now-developed countries (NDC) *"(...) actively used interventionist trade and industrial policies aimed at promoting, not simply "protecting", it should be emphasised, infant industries during their catch-up periods"*.

2.1. Protectionism: the Road Today's Developed Economies Rode in the Past

Several examples of countries embarking on trade restrictiveness are presented on Chang research: Britain, United States of America (USA), Germany, France, Sweden, the Netherlands, Switzerland, Japan and East Asian Newly Industrialized Countries (NICs). Britain and the USA, in particular, are presented as the two countries that used protection and subsidies most aggressively, contrary to conventional wisdom, which usually presents them as the runners of the strongest free-market, free trade policy. Indeed both countries only embarked on liberalisation when they felt they were prepared, what took place only after a long period of protectionism and of sympathy for the infant industry argument (which was around 1860 in the case of Britain and after the World War II in USA's case).

Supported by a study from Bairoch (1993)[33], Chang (2003:5-6) notes that *"(...) contrary to the popular belief, Britain's technological lead that enabled this shift to a free trade regime had been achieved "behind high and long-lasting tariff barriers"*. He also

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[33] Bairoch, P. (1993). Economics and World history – Myths and Paradoxes. Brighton: Wheastheaf.

writes *that "between 1816 and the end of the Second World War, the US had one of the highest average tariff rates on manufacturing imports in the world.(...) It was only (...) with its industrial supremacy unchallenged, that the US liberalized its trade (although not as unequivocally as Britain did in the mid-nineteenth century) and started championing the cause of free trade"*. The author intentionally points out that tariff protection was not the only measure adopted by the US Government to foster growth, which included government (Research and Development) R&D spending, higher investment in public education and development of transportation infrastructure.

As stated above the author also studies Japan and the East Asian Newly Industrialized Countries, noting that *"(...) in the economic successes of Japan and other East Asian countries (except Hong Kong), interventionist trade and industrial policies played a crucial role. Notable are the similarities between their policies and those used by other NDCs before them, including, above all, eighteenth-century Britain and nineteenth – century United States"* (Chang 2003:11). Nonetheless it recognises that policies used by East Asian countries in the post Second World War period were far more sophisticated, with higher resource to export subsidies and tariff rebates for imported raw materials and lower use of export taxes.

Table 17: Average tariff Rates on Manufacturing Products for Selected Developed Countries in Their Early Stages of Development

TABLE 1. AVERAGE TARIFF RATES ON MANUFACTURED PRODUCTS FOR SELECTED DEVELOPED COUNTRIES IN THEIR EARLY STAGES OF DEVELOPMENT

(weighted average; in percentages of value)[1]

	1820[2]	1875[2]	1913	1925	1931	1950
Austria[3]	R	15–20	18	16	24	18
Belgium[4]	6–8	9–10	9	15	14	11
Denmark	25–35	15–20	14	10	n.a.	3
France	R	12–15	20	21	30	18
Germany[5]	8–12	4–6	13	20	21	26
Italy	n.a.	8–10	18	22	46	25
Japan[6]	R	5	30	n.a.	n.a.	n.a.
Netherlands[4]	6–8	3–5	4	6	n.a.	11
Russia	R	15–20	84	R	R	R
Spain	R	15–20	41	41	63	n.a.
Sweden	R	3–5	20	16	21	9
Switzerland	8–12	4–6	9	14	19	n.a.
United Kingdom	45–55	0	0	5	n.a.	23
United States	35–45	40–50	44	37	48	14

Notes:

R= Numerous and important restrictions on manufactured imports existed and therefore average tariff rates are not meaningful.

1. World Bank (1991, p. 97, Box table 5.2) provides a similar table, partly drawing on Bairoch's own studies that form the basis of the above table. However, the World Bank figures, although in most cases very similar to Bairoch's figures, are *unweighted* averages, which are obviously less preferable to *weighted* average figures that Bairoch provides.
2. These are very approximate rates, and give range of average rates, not extremes.
3. Austria-Hungary before 1925.
4. In 1820, Belgium was united with the Netherlands.
5. The 1820 figure is for Prussia only.
6. Before 1911, Japan was obliged to keep low tariff rates (up to 5%) through a series of "unequal treaties" with the European countries and the United States. The World Bank table cited in note 1 above gives Japan's *unweighted* average tariff rate for *all goods* (and not just manufactured goods) for the years 1925, 1930, 1950 as 13%, 19%, 4%.

Source: Bairoch,1993:40 (cited in Ha-Joon Chang,2002:2)

2.2. More than Tariff Protection, Industrial Promotion Led the Catch-up Process

One of the points that is strongly highlighted by Chang is the use of some form of infant industry promotion strategy by NDC, which links to the idea that more than protect (through the imposition of tariffs) these countries intended to promote industry to fuel their catch-up process *"(…) During the late nineteenth and early twentieth century, while maintaining a relatively low average tariff rate, Germany accorded strong tariff protection to strategic industries, while maintaining generally low tariffs. Similarly,* *Sweden provided targeted protection for the steel and the engineering industries, while maintaining generally low tariffs. Germany, Sweden, and Japan actively used non-tariff measures to promote their industries, such as establishment of state-owned "model factories", state financing of risky ventures, support for R&D, and the development of institutions that promote public-private cooperation".* Tariff protection was just a part of a global strategy which comprised a number of other tools *"(...) such as export subsidies, tariff rebates on inputs used for exports, conferring of monopoly rights, cartel arrangements, directed credits, investment planning, manpower planning, R&D supports, and the promotion of institutions that allow public-private cooperation"* (Chang. 2003:12), which were combined by each country in the way they considered to best serve their interests.

Acknowledging the historical path of the NDC, Chang shows its scepticism towards the developed world recommendation for developing countries to liberalize their economies and embark on free trade (what he calls of *"good policies"*), as those were not the policies they have followed in the past. He concludes that it is not fair that these countries kick away the ladder they have climbed up to get where they are now. And though he recognizes that average tariff rates for developing countries are higher today than those recorded in the past by NDC, he adds that if factoring in the productivity gap[34] against advanced economies (now and then), today's developing countries are still lagging behind the level of protectionism that was adopted by NDC. Chang goes even further by noting that the poor economic performance of developing countries over the last three decades should be largely put the use of the called *"good policies"* of free-trade and laissez faire, which don't seem to fit to developing countries' development needs. Instead he proposes that *"WTO rules and other multilateral trade agreements should be rewritten in such a way that a more active use of infant industry promotion tools (e.g., tariffs, subsidies) is allowed"* (Chang, 2003:14).

[34] The gap in per capita income in purchasing power parity (PPP) terms between the most developed countries and the least developed countries was about two or four to one throughout the nineteenth century against fifty or sixty to one now.

Oxfam (2008:11) also made an exercise comparing current tariffs levels in SSA in with those of European countries at the same stages of the industrialization process, concluding that SSA tariffs levels are significantly lower. The NGO calls attention to ACP countries' bitter experience of liberalisation through the 80s, outlining that *"(…) in many African countries growth rates halved and living standards heavily declined"*.

Table 18: African and European Tariffs During Industrialization

Country	Average manufacturing tariffs (1950)
Denmark	3%
Sub-Saharan Africa (2005)	8%
Netherlands/Belgium	11%
France	18%
United Kingdom	23%
Italy	25%
Germany	26%

Source: World Development Indicators 2007; Ha-Joon Chang (2005) (cited in Oxfam, 2008:11)

As such it concludes on the need to strategic governance of the economy, with governments entitled to use tariffs and other trade policies in defence of vulnerable producers and aimed at stimulate new value-added industries, alerting to the risk of EPAs remove important policy instruments from the hands of ACP governments (Oxfam, 2008:14-16).

Amsden (1989:3-23) is another author which addresses the role the State performed on development, studying the industrialization case of South Korea. She uses the term of development's state to describe the discipline exerted by the State on the market and on private companies with the purpose of development (instead of wealth accumulation by itself). Such discipline involved an industrialization strategy based on: (i) discipline towards activity licensing as well as implementation of penalisation/compensation on goals achievement; (ii) limited number of entrants in each industry in order to foster industrial concentration (economies of scale gains, the launch of Chaebols and incentives to intense competition); (iii) to counterbalance the policy of industrial concentration an active policy of control of monopolistic practices was implemented, which involved the previous negotiation of prices; (iv) State control over financing activities supported on a strong regulation of financing activities (in order to combat rent seeking behaviour) and close control of the capital balance; (v) launch of a technology policy directed towards technological independence (firstly based on learning through external licensing and technical assistance but with the purpose of promoting an endogenous technological change process), which involved strong State investment on education and training sectors; (vi) the adoption of expansive fiscal policies aimed at finance and support long term investments; (vii) underweight of welfare redistributive policies in favour of production goals.

Robert Wade constitutes also an important reference in the domain of development economy, studying the role of the State in the industrialization process of Eastern Asia (particularly illustrating the case of Taiwan). In its work, Wade (2005:15-22), proposes the concept of governed market to describe the relation established between the State and the market, where the first holds effective political leadership over the latter. The author aggregates the industrial policies led and implemented by the State on three different types: (i) functional economic policies (foreign exchange policies, macroeconomic and competition policies); (ii) multisectoral horizontal policies (incentives to R&D, to small and medium enterprises, investment in ports infrastructure); (iii) sectoral policies to promote specific sectors and subsectors. Wade questions the liberal explanation (presented in World Bank studies) that the rapid growth of Eastern Asia was based on the opening up of trade regimes and strong exports growth. Instead, the author stresses the organizational structure of the development State, which enabled Taiwan to conquer the technological level of OECD middle-income countries, which further led him to support the strategy of the governed market in the context of developing countries, including Eastern Europe.

2.3. From Infant Industry to the Infant Economy Argument

Finally, Stiglitz (2006:71) advocates temporary nascent industry protectionism. He argues that if countries solely focused on its own comparative advantage, many wouldn't leave the pattern of production of low value added production. He therefore argues that more important than measuring the growth rate of the developing world is accessing how it can close the knowledge gap against developed countries. In order to step into valued-added sectors, temporary protectionism should take place until those industries are strong enough to weather international competition: *"(...) Tariffs result in higher prices – high enough that the new industries can cover costs, invest in research, and make the other investments that they need in order to be able eventually to stand on their own feet. This is called the "infant industry argument" for protection"*.

One of the critics made to infant industry argument refers to too much protection, which impedes infant industries from growing and face competition; or the use of the argument in defence of private interests, harming inclusively other industries and public welfare. As a response to this latter criticism, the author suggests the argument of the infant economy, which implies a broad-based protection: *"broad-based industrial production can lead to an increase in the size of the industrial sector, which is, almost everywhere, the source of innovation; many of these advances spill over into the rest of the economy, as do the benefits from the development of institutions, like financial markets, that accompany the growth of an industrial sector. Moreover, a large and growing industrial sector (and the tariffs on manufactured goods) provides revenues with which the government can fund education, infrastructure and other ingredients necessary for broad-based growth"* (Stiglitz, 2006: 71-72).

3. Key Issues for EPAs Negotiations: Turning Them Into a Pro-Development Tool?

EPA's negotiations play an important role in the definition of ACP countries' position in the multilateral forum and in the global economy. As such EPA's negotiations should evolve with careful thought and within a reasonable timeframe, opposite to the spirit that is ruling negotiations as the EU imposes a tight deadline. Much is at stake and to turn EPAs into pro-development tools key issues have to be addressed.

3.1. Negotiating the Biggest Possible Asymmetry Reciprocity

Alpha et al. (2005: 35-36) call the attention to the need of flexibilizing the interpretation of the GATT's XXIV article particularly when dealing with a FTA which is composed by partners holding development gaps among themselves, like is the case of EPA's. Stevens (2008:214) also shares the view that negotiations should have taken centre stage in the redefinition of the article, to then take this issue, in a jointly move of ACP countries and EU, to the WTO forum. ACP countries asked EU to ask for an extended WTO waiver, which would give them more time to prepare for and negotiate EPAs but EU was not willing to do so (and indeed it was the EU that had to act in the WTO, the country owning problematic trade policies). With this option excluded, ACP countries should fight for the biggest asymmetry possible in the EPA's, as well as for a longest possible implementation period. Article XXIV provides a rather vague definition of a FTA or CU, which is open to interpretation, giving therefore room for fiercer negotiation on this front.

According to EBCAM (2008:1-2), the AU ministers of Trade and Finance have selected the number of provisions that are included in IEPAs and which are to be reviewed during full EPAs negotiations and which range from the definition of substantially all trade, transitional periods, export taxes, free circulation of goods, national treatment, bilateral safeguards, infant industry, non-execution clause and MFN clause. The rendez-vous clauses in IEPAs refer to services and trade related issues to be addressed in negotiations but do not prescribe the outcome of these negotiations.

Oxfam (2008:22-23) makes recommendations for ACP countries obtain fair deal in services. It suggests a good and effective regulation of both commercial and essential services, good management and regulation of foreign investment to ensure a high level quality of service and universal access to essential services, this latter provided by publicly owned and well-funded companies. The provision of universal essential services is indeed something that must be safeguarded, as a significant proportion of ACP countries population lives in poverty and as such wouldn't be able to have pay for such services should these sectors be liberalised. The Caribbean is the only region that has concluded EPA negotiations on services, and according to the regional agreement up to 75% of services sectors have been liberalised, which include a wide range from book-keeping and financial services to medical and health services and tourism.

Among other Singapore issues[35], the NGO targets investment, noting that *"(...) foreign investment can work in the public interest and add value to the development process*" if EPAs *"(...) ensure that foreign investment generates value for the local economy and local people, stimulating development through the creation of decent jobs, reinvestment of profits, training of personnel, linkages to local companies, and equitable sharing of benefits, and by upholding national environmental, labour and social standards; ensure that the public interest takes precedence over the interests of private investors"* (Oxfam, 2008:28). Also on this front the NGO presents the case of Caribbean where the liberalisation to foreign investment was made with very little limits.

[35] The Singapore issues refer to four working groups set up during the World Trade Organization Ministerial Conference of 1996 in Singapore. These groups are tasked with these issues: transparency in government procurement, trade facilitation (customs issues), trade and investment, and trade and competition. These issues were pushed at successive Ministerials by the European Union, Japan and Korea, and opposed by most developing countries.

Figure 14: Caribbean EPA: Opening Up to Foreign Investment

- **Manufacturing** is largely opened, with very few countries placing limits on the entrance of foreign investors or retaining their right to regulate manufacturing activities. In food and beverage manufacturing, for example, only four countries have placed limitations on the activities of European companies.
- **Forestry and logging** are largely opened, with only four countries placing limits, including two that specifically retain the right to 'maintain measures on investment in this sector'.
- **Agriculture** is opened, with eight countries placing some limits on investment – Grenada, for instance, stipulates that foreign companies can invest only in export sectors.
- **Mining** is largely opened. Although nearly all states reserve the right to screen foreign investment, once foreign companies have entered, they will be subject to few measures. For instance, Belize stipulates that foreign mining companies will be 'subjected to performance requirements'.

Source: Oxfam (2008:29)

3.2. Calling for SPS Harmonization

There is broad consensus towards the need of international harmonization of non-tariff barriers and SPS issues that minimizes costs without putting consumer protection or public health at risk. The WTO has two agreements to deal with these issues - the SPS agreement refers to international standards established by specialised institutions, such as the Codex Alimentarius Commission for human health matters, the International Office for Epizootics for Animal Health and the International Convention for the Protection of Plants. The World Trade Organization Technical Barriers to Trade Agreement (TBT) refers to quality standards comprising intrinsic product characteristics like size, appearance, functions, performance, and way to be packed or labelled. Still, the current WTO allows member states to establish standards far more demanding than international ones as long such option is scientifically grounded. Czubala, Shepherd and Wilson (2007, p.1-36) studied the impact of EU standards on African textiles and clothing exports, concluding that non-harmonized standards (they assumed ISO standards as the proxy for international norms) are more trade restrictive to African exports.

Arbitrary regime on SPS imposes strong constraints over ACP countries (particularly on those exporting agricultural products), which not only lack the financial, technical and human capabilities to deal properly with such complex standards, but also fall short of their participation in the drawing of such measures. Acknowledging the difficulties faced by developing countries to apply to SPS measures imposed by the developed world, but also taking into account the need to protect consumers and public health, the WTO contemplates, in the framework of the special and differential treatment, technical assistance to the developing world provided by the developed country implementing stricter SPS measures. ACP countries should therefore demand such assistance while negotiating EPAs. Furthermore, ACP countries should make their voices and interests be heard at the international organisations in charge of defining the content of international standards whilst Europe should think of aligning its SPS with international standards in order to avoid excessive constraints on trade (Alpha et al., 2005: 29-31).

3.3. RoO Easing and Harmonization

It is important to prevent that RoO are used with protectionist purposes and reassure their role of fostering the integration of the developing world (receiving special treatment) into the world economy. The World Bank (2008:16) proposes that *"(...) all the different combinations of RoO that can exist for a single good in certain PTAs could be abandoned for a single value content, which could also be uniformized across goods, as in the case of AFTA RoO regime".* Current EPAs negotiations should therefore made strong efforts towards simplified and harmonized RoO across preferential trade agreements, contemplating an exceptional exemption regime for LDC (given their strong structural constraints), issues which should later be raised up at the multilateral forum. L.Hinkle et al. (2005, 277) proposes *"(...) a 10 percent value-added rule as a non-restrictive rule of origin. If the value-added requirement is higher, cumulation rules should be global to allow ACP producers maximum access to the world's lowest-cost inputs and to avoid putting regional suppliers outside the EPA group at a disadvantage."*

3.4. Softening EPA-Related Fiscal Revenue Losses

The dependence of African governments of fiscal revenue is one of the issues that raise more controversy on EPAs implementation. As UNECA (2008:37) notes, intra-African trade flows analysis suggest that trade liberalization usually benefit those countries more industrially developed which can leverage up their exports. To offset this deadlock the multilateral organization suggests the establishment and effective implementation of compensation and equalization schemes, which could be financed through the imposition of small tax of between 0.5% up to 1% on imports from outside of Africa. The collected funds should help to mitigate these losses and a part of them should be used to finance development projects in the least developed countries of the RECs in order to overcome the supply-side and infrastructures constraints. Additionally, value-added taxes are other of the ways to reduce dependence on trade taxes but the implementation of this measure is very difficulty given the narrow fiscal base on many of these countries, where population already has very little purchasing power. In order to overcome the difficulty in setting a common external tariff, the same report suggests the organization of a regional conference on common external tariffs, under the lead of AU, with the purpose of examining the challenges in this area and *"(…) propose a common set of principles and a framework for application at the subregional level, taking into consideration the overriding need to establish the African common market as part of the accelerated programme of the Union Government"*.

Hinkle et al. (2005: 269-272) also make concrete proposals on this front, one of which related to the eligibility of sensitive products with strong impact on revenue loss to be excluded from liberalization, something that is being used and negotiated under ongoing EPAs, though as many countries face significant technical and institutional constraints they are not in the best condition to select these products within the tight deadlines that are being imposed by EU. They also suggest that those countries not levying value-added tax (VAT) and excises on imports, could impose them or increase the taxes already being levied in order to counterbalance the loss of revenues. The key question regarding this latter issue is the margin EPAs negotiations and WTO norms concede for such a move; furthermore, many of these countries have went through SAP, which limited the extension of taxes use. The fourth argument used by Hinkle regards to the length of the implementation period of EPAs and how its combination with development assistance could help to smooth the impact of loss revenue. In particular, the author stresses the importance aid for trade (A4T) - in the form of technical and financial assistance - plays through this transition period.

3.5. Definition of Sensitive and Special Products

Though both WTO and EPA negotiations portend that ACP countries liberalise trade, the Special and Differential Treatment (SDT) granted to developing countries at WTO, and the asymmetric reciprocity EPAs comprise (through GATTS XXIV article), allow ACP countries to exclude a certain number of products from liberalisation. Therefore, in addition to the sensitive products all WTO members can designate, the developing world is allowed to select a number of products based on reasons of food security and rural development – the so called special products. So, special products are more ambitious than sensitive products in terms of concept, and it is important that criteria to determine the first, differs from that characterizing the latter. ACP countries could therefore use options already in use by other countries such as exclusion of special products from all tariff reductions (instead of a smaller tariff reduction for sensitive products), possible tariff rearmament, import quotas, longer quota periods, among others (Alpha et al., 2005: 33). As Hinkle et al. (2005, 269:270) note, defining a common list of sensitive products to be excluded from the negotiations with the EU might involve complex negotiations as the levels of protection differ in size and structure among countries. This task is even harder when a consensus on sensitive/special products definition is expected to be reached at a regional level, so those ACP countries in need of help should call for technical assistance on such areas.

The implementation of EPAs should portend the elimination of escalating custom duties and residual tariff barriers imposed by EU on some ACP countries exports, but for this to effectively happen EU's sensitive products should also be tackled on EPAs negotiations.

Oxfam (2008:16) analysis of initialled EPAs concludes that only 2-20% of imports are excluding from liberalisation and these excluded products are mostly confined to agricultural products. This portends a perverse consequence for ACP countries, whose manufacturing activities might be at risk, putting the development process of these countries in question, as it makes a lot more difficult the migration towards a higher value-added pattern of production.

3.6. Use of Safeguard Measures

Alpha et al. (2005: 33-34) highlight that another option that should be used by ACP countries, regards to special safeguard measures, whose use WTO authorises when a country intends to protect itself against massive imports or a significant decrease in the price of imports. In practice it translates into temporary tariff rearmament. Experience shows that safeguard measures are difficult to implement and time consuming, which leave them more reserved to the developed world. As WTO prefigures a special safeguard mechanism a similar mechanism should be considered at the level of EPAs. ACP countries should call for a simplification of the safeguard mechanism covering the following points: *"(...) trigger criteria (price and/or volume threshold), triggering mechanism (automatic or specific procedure), duration, eligible products and in particular the link with sensitive and special products and finally the content (additional customs duties or other possibilities, such as quantitative restrictions)."*

Oxfam (2008:4) analysed initialled EPAs concluding that *"(...) deals fail to help tackle food insecurity. Though allowing some protection, weak safeguards in the deals necessarily expose small-scale farmers to sudden surges of competition from imports, undermining staple food markets"*. Furthermore, the NGO adds that *"(...) rather than supporting countries to change the terms on which they engage, the deals risk reinforcing the unequal trade and investment relationship that ACP countries are already struggling with"* (Oxfam, 2008:9).

Table 19: Oxfam Put Initialled EPAs to the Development Test

Do EPAs support ACP countries to:	Evaluation
Integrate their economies with their regional neighbours	The deals create significant barriers to integration between existing regional partner countries and in several instances fragment existing regional blocs.
Develop new industries and create jobs	The deals fail to support economic diversification away from low-value agricultural production by restricting the choices of ACP governments to support the development of new industries.
Overcome insecure access to food and support vulnerable farmers	The deals fail to help tackle food insecurity. Though allowing some protection, weak safeguards in the deals unnecessarily expose small-scale farmers to sudden surges of competition from imports, undermining staple food markets.
Upgrade their infrastructure	Although Europe provides substantial funds for infrastructure through the European Development Fund, this is insufficient. Moreover, the new deals impose high additional costs. ACP countries are left worse off.
Have full access to Europe's markets	The deals only make it slightly easier for the ACP to export to Europe. In return, they require ACP countries to dramatically open their markets to imports from Europe. In addition, Europe is set to open up to other developing countries, which will make any gains temporary.
Attract high quality investment	Foreign investment only brings benefits if well managed. The deals tie the hands of ACP governments, and make it harder to manage investment in the public interest.
Provide affordable and accessible services	The deals severely constrain effective regulation and threaten universal access to vital sevices.
Stimulate innovation and increase access to technology	The initialled EPAs fail to support innovation as stricter intellectual property rules undermine access to knowledge; toothless commitments on technology transfer will not work.

FAIL

Source: Oxfam 2008:4

3.7. The Development Component of EPAs - The Importance of AfT

The call for technical and financial assistance to tackle supply-side constraints (infrastructure, production capacity), for trade facilitation, SPS and RoO links directly to the development component of the EPA's, which should be bolstered over current negotiations through additional AfT. Greater volumes of AfT, a special deliver mechanism and a closer link to EPAs have been demanded by ACP countries, but without success. ACP countries and regions should keep on calling higher financial assistance and stronger articulation between AfT and EPAs. According to Oxfam (2008:19) the upgrade of Africa's basic infrastructure it would be necessary US$200 billion, an impressive amount when compared to the €22.8 billion 10th EDF (2008-2013 funding cycle).

Given the demand-driven approach of EU's Aft initiative, ACP countries/regions need to square trade-related support as a priority in their development strategies and present a plan to the EU if they want to apply for AfT. Lead such proactive role of defining a plan and list respective priorities might prove challenging for recipient countries that have to cope with limited technical and human resources, more even if factoring into the deadlock EPAs have raised to the regional integration process. Still, support should be given to those countries/regions where strategies are lacking. There is wide consensus that AfT initiatives should be targeted at a regional level, with regional communities on charge of formulating medium-term operational strategies and related work programmes with comprehensive and detailed priorities regarding regional integration and EPA support, but this would demand the integration process to move as its own speed and not that is being imposed by the EU (ECPDM, 2008b: 10).

3.8. Prioritizing the Regional Integration Process

The need for integration in Africa is indisputable if the continent intends to position itself strategically in the global economy, promote and protect its interests. Oxfam (2008:12) stresses the role of regional integration for the development of manufacturing activities, as it widen markets, offer economies of scale, fosters specialization and value added creation. It outlines EAC and SADC, whose exports on manufactured goods to other countries in their regions already surpass 50%, compared to 12% exported to

Europe. Still, do not be deceived intra—trade in ACP countries remains pretty low, with Caribbean only exporting 12% of its exports to the region.

As UNECA (2008:34-36) notes, Africa's trade within itself remains little when compared to internal trade of regions like Europe and Asia, even after the efforts carried out on trade liberalization by Regional Economic Communities (RECs): *"according to WTO 2006 international trade statistics, intra-African trade as a percentage of total exports was only 9.8% and 8.9% in 2000 and 2005 respectively, compared with 72.7% in 2001 and 73.2% in 2005 for Europe's export trade, and 66.8% and 66.7% respectively, among the 25 countries of the European Union. (...) Asia's intra-export trade as a percentage of total exports was 51.2% in 2005, while South and Central America's was 24.3%"*. One of the reasons behind low intra-African trade relates to the little production and manufacturing base (as we are dealing with economies with little levels of economic diversification, with most of the African countries trading natural-resource based products) and the infrastructures deficiencies (roads, railways, electricity and other forms of energy, technology) already developed on Chapter I.

UNECA (2008:34-36) refers to the fact that African countries trade more with the EU than among themselves, as over 90% of exports go abroad, with the EU and the USA accounting for over 60% of the total. This pattern of dependence is explained by the strong demand for commodities, the growth within the OECD, the Uruguay Round negotiations and the resulting impact on the reduction of average tariffs, the USA AGOA as well as EU's EBA initiative. Trade relations are just not confined to EUA and USA as China imports 25% of its oil from Africa, with Sino-Africa trade growing from US$12mn in 1956 up to US$817mn in 1979 and US$39.7bn in 2005.

Table 20: African Merchandise Exports

	Total Merchandise			Fuels and Mining Products			Manufactured Products			Agricultural Products		
From Africa	Value in billion $	Share (%)		Value in billion $	Share (%)		Value in billion $	Share (%)		Value in billion $	Share (%)	
	2005	2000	2005	2005	2000	2005	2005	2000	2005	2005	2000	2005
To World	297.7	100%	100%	194.2	100%	100%	63.0	100%	100%	32.3	100%	100%
To Europe	127.8	50.3%	42.9%	74.2	45.7%	38.2%	34.5	60.1%		15.2	50.0%	47.2%
To North America	60.2	17.3%	20.2%	52.9	24.7%	27.2%	5.1	8.6%	8.1%	2.0%	5.0%	6.3%
To Asia	48.6	16.4%	16.3%	33.4	18.3%	17.2%	7.7	9.8%		5.0%	18.2%	15.3%
To Africa	26.5	9.8%	8.9%	9.4	5.1%	4.8%	11.4	16.2%		5.5%	18.7%	17.1%

Source: UNECA 2008

3.9 African Union Empowerment in Regional Integration Process and on EPAs

Inn 2003, UNECA (2003:62-63) called for the AU to *"(...) provide an impetus for relaunching the integration agenda and positioning Africa in the global economic and political mainstream"*. The same report noted that *"(...) African union structures need supranational clout to enforce African Union interests first over parochial national interests"*. Other areas of consensus on the report relate to the rationalization and empowerment of RECs, the involvement of the private sector in the identification, formulation and implementation of integration policies and programmes, the set up of an integration ministry in countries combined with relevant subnational structures or an appointed coordinator with full authority and capacity, as well as the adoption of common documents for cross-border transactions and clearance of cargo, vehicles and people (UNECA 2003:60-72).

UNECA (2006) Report reflected on regional integration in Africa but focusing on institutions and on the need to build and strengthen this latter to sustain development, translating the case of Europe where strong institutions supported the regional integration process. It directly admits that *"countries need to improve the efficiency of their services by reducing rent-seeking and corruption and increasing democratic control over institutions"* (UNECA, 2006:25). The establishment of key institutions, like the African Parliament, the African Court of Justice, the African Central Bank and the African Investment Bank is one of the ways to speed the regional integration process and *"(...)*

the African Union is expected to make a tremendous difference to the substance and pace of progress towards integration goals", by providing the necessary continental policy guidance and framework. It also emphasised the need to rationalize RECs as it considered this *"(...) offers the continent opportunities to redesign its integration institutions to speed the creation of the African Economic Community"* and recognizes the need to impose disciplines and sanctions on RECs that deviate from the continental objective (UNECA, 2006:41).

UNECA (2008) Report suggests the need to rationalize the RECs and not recognize more that the eight that have been elected as the main pillars of the AU. The Abuja Treaty, adopted in 1991 and operational in 1994 had the purpose of establish a continental economic community through coordination, harmonization and progressive integration of the RECs. The Constitutive Act of the AU acknowledges that the primary objective of the Union is to establish an African Economic Community and RECs should have a role and responsibilities towards the targeting of that goal.

Table 21: REC's Recognized by AU as the Pillars of Africa Economic Community

Main RECs recognized by the African Union as pillars of the AEC*	Sub-groups
Community of Sahel-Saharan States (CEN-SAD)	
Common Market for Eastern and Southern Africa (COMESA)	
East African Community (EAC)	
Economic Community of Central African States (ECCAS/CEEAC)	Economic and Monetary Community of Central Africa (CEMAC)
Economic Community of West African States (ECOWAS)	West African Economic and Monetary Union (UEMOA), West African Monetary Zone (WAMZ)
Intergovernmental Authority on Development (IGAD)	
Southern African Development Community (SADC)	Southern African Customs Union (SACU)
Arab Maghreb Union (AMU/UMA)	

* *In order to address the issue of multiplicity of RECs and overlapping memberships, the AU Summit held in Banjul in July 2006 decided to put a moratorium on the recognition of new RECs. The problems associated with multiple memberships of RECs are discussed extensively in ARIA II: Rationalizing Regional Economic Communities, UNECA, 2006.*

Source: UNECA 2008

On this front UNECA (2008:36) makes a clear suggestion: "*RECs and their constituent member States need to push harder than ever for a fully integrated common* *market with the removal of all tariff and non-tariff barriers and the free circulation of all factors of production, including capital, labour and investments. A fully operational common market could provide an incentive for economies-of-scale production. Furthermore, the RECs should consciously promote the multinational exploitation of and investments in natural resource endowments to take advantage of economies of scale and the rational and optimal use of such resources".* And here the multilateral organization makes the bridge towards Aid for Trade by highlighting the importance of this initiative to build the multinational production capacity that is necessary to allow the migration from a pattern of primary commodities production towards higher value-added activities.

In face of strong evidence that EPAs are hindering the regional integration process, African leaders have called for an empowered African Union (AU), which could review all EPAs deals before these turn into law[36], an initiative which has, however, faced EU's resistance[37]. The AU Commission is preparing, with the technical support of the UNECA an Africa EPA template, with the purpose to guide the negotiations with the EU (EBCAM, 2008:2).

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[36] Assembly of the AU, "Declaration on EPAs", Addis Ababa, DOC.EX.CL/394(XII), 3 January 2008 (cited in Oxfam 2008:19)

[37] Peter Mandelson speaking to the European Parliament, Brussels, 28 January 2008 (cited in Oxfam 2008:19)

CONCLUSIONS

EPAs are EU's proposal of commercial cooperation with ACP countries after a long period of preferential non reciprocal commercial treatment from EU to ACP exports which did not produce the expected results. The share of ACP countries' exports in world trade was left at subdued levels, unveiling trade preferences erosion against other developing countries, as liberalisation negotiations at the multilateral level speed and deepened up. However, EU's strongest argument for EPAs introduction was the non-compliance with the preferential non-reciprocal treatment with WTO's MFNP and the growing pressure for its correction.

EPAs involve tough and challenging negotiations for ACP countries, which are extending over time. The call for "substantial" opening of ACP markets to EU exports is facing strong resistance from most ACP countries' leaders, who understand that a lot is at stake and, as such, negotiations must be taken within a reasonable timetable and not under the tight deadlines imposed by EU. Only a small number of countries has closed full EPAs by the time of writing this dissertation on charges that agreements are falling short of their development promise, so interim agreements prevail in most countries. Negotiations that were first intended to be conducted between regional blocks, and as such bolster the regional integration process, are being replaced by bilateral agreements as ACP countries can not reach an agreement regarding the timetable or the list of goods to submit to the liberalization scheme portended by EPAs. ACP countries with the lowest bargaining power are succumbing to EU's tight deadlines, negotiating and signing full EPAs within a short period of time (as happened with the Caribbean). Negotiations on full regional EPAs proceed, after ACP members negotiated individual EPAs, but it remains to be seen if these will prove successful as the regional integration process proves puzzling (one of the key issues refers to agreement on a CET as there are large differences of tariffs amongst ACP countries). EPAs also meet criticism towards EU's agenda setting, whose scope goes, in many cases, far beyond what is proposed at the WTO forum. Heterogeneity seems to be the ruling word.

A trade liberalization friendly environment marked the last two decades, which took the form of tariffs reduction levels worldwide. EPAs came under such liberalisation spirit. Still, it is important to acknowledge that tariff reduction has been stronger in manufactured goods than in agricultural goods, a trend which worked predominantly to the benefit of developed economies (whose comparative advantage was manufactured goods production). Trade liberalisation is now moving into services and intellectual property rights, current comparative advantages of the developed world, as Sitglitz (2006:75-77) notes. Furthermore, efforts on trade liberalization, though bolstered, have not reached all areas, as escalating custom duties - *"(...) levying higher tariffs on processed goods in opposition to on raw materials"* (Oxfam, 2006:4) – are been kept against developing countries and within our scope of analysis against ACP countries who find themselves confined to primary products specialisation and strong commodity dependence. Of great importance are non-tariff barriers, which have grown significantly over the past years, with RoO and SPS compliance representing particularly demanding requirements for ACP countries, which already have to deal with a shortage of human and technical capabilities, in addition to supply-side constraints. RoO and SPS are key issues for ACP exporters as it makes harder their access to European markets - SPS harmonization should be one of the calls of ACP countries in EPAs negotiations, as European SPS rank amongst the most demanding, whilst RoO easing should also be targeted.

On this front, it is important to highlight the unfair competition pursued by EU which often subsidises its exports but intends to impede ACP countries from protecting their exporters through the imposition of tariffs, which actually is the only option they have at their disposable given the lack of financial resources to pursue other kind of policies and the constraints raised by SAP's. ACP Governments, NGOs and scholars are waiving concerns towards the loss of fiscal revenues EPAs portend for ACP countries, given these latter dependence of import fiscal taxes. Though there isn't a consensus over the impact on ACP members' GDP, both UNECA (2008:37) and Hinkle et al. (2005: 269-272) suggest ways of softening those losses.

The fact that ACP countries are involved in several negotiations roundtables – EPAs, WTO forum, own regional integration processes – is also toughening the task. On this front it is important to notice that EPAs negotiations are running faster than WTO's roundtable, but the implications from these agreements at the multilateral forum will be considerable, and in particular referring to ACP countries' bargaining position. As such, ACP countries should be extra-cautious regarding the content and extension of the liberalisation they are willing to carry out under EPAs as these will have consequences in their competitive position worldwide in the future - negotiating the biggest possible asymmetry should be a target by itself. Careful attention should be paid on negotiations of issues of services, investment and intellectual property rights, as WTO's agreements at these levels cap considerably developing world's future running options.

EPAs as they were designed and are currently being implemented do not seem to work as pro-development tools. Instead, to put development at the centre of EPAs negotiations, these agreements should prove more compatible with the regional integration process and prioritize it, since this latter is considered a backbone to the effective integration of ACP countries into the world economy and the upgrade of their competitive position. Development assistance and in particular AfT is an area that needs to be bolstered if EPAs intend to succeed in the reduction of poverty incidence in ACP countries; it would enable to tackle structural constrains related to supply capacity, infrastructure and transports.

The EU launched a strategy on AfT (squared within WTO's AfT initiative) which did not compromise a new aid envelope or specific delivery mechanisms; as such assistance will continue to be channelled though FED. ACP countries and regions should keep on calling for higher financial and technical assistance and stronger articulation between AfT and EPAs. Furthermore, the delivery of aid relies too much on "Best-Endeavour" terminology and EU's AfT Strategy assumes a demand-driven approach. This means that recipient countries will have to take the lead and promote initiatives identifying trade-related support as a priority, squared within a national development strategy, in order to apply for AfT. Lead such proactive role of defining a plan and list respective priorities might prove challenging for recipient countries that have to cope with limited technical and human resources, more even if factoring into the deadlock EPAs have raised to the regional integration process. Therefore, support should be given to those countries/regions where strategies are lacking.

This dissertation reflected on arguments in favour and against free trade as well as upon the relation between protectionism/industry promotion and development. Based on the works from Chang, Wade and Amsden reinforces the view that today's advanced economies embraced protectionism policies in the past, in order to climb the ladder of development. ACP countries should therefore call on their right to use the same policies others countries used in the past, and should strongly expose such views on EPAs negotiations - this would enable to turn EPAs into pro-development tools. Significant market failures in developing countries suggest that free trade isn't the best policy option. Arguments for infant industry and for temporary and selective protectionism, squared within a development strategy, should be revived. These arguments could be introduced in EPAs, for instance, within the framework of the sensitive/special products that can be eligible and also under the subjectivity that the interpretation of the "substantial liberalisation" scheme portends. Last but not least, the empowerment of AU in the context of the regional integration process and on EPAs negotiations, as an interlocutor with EU, should also yields gains for African countries.

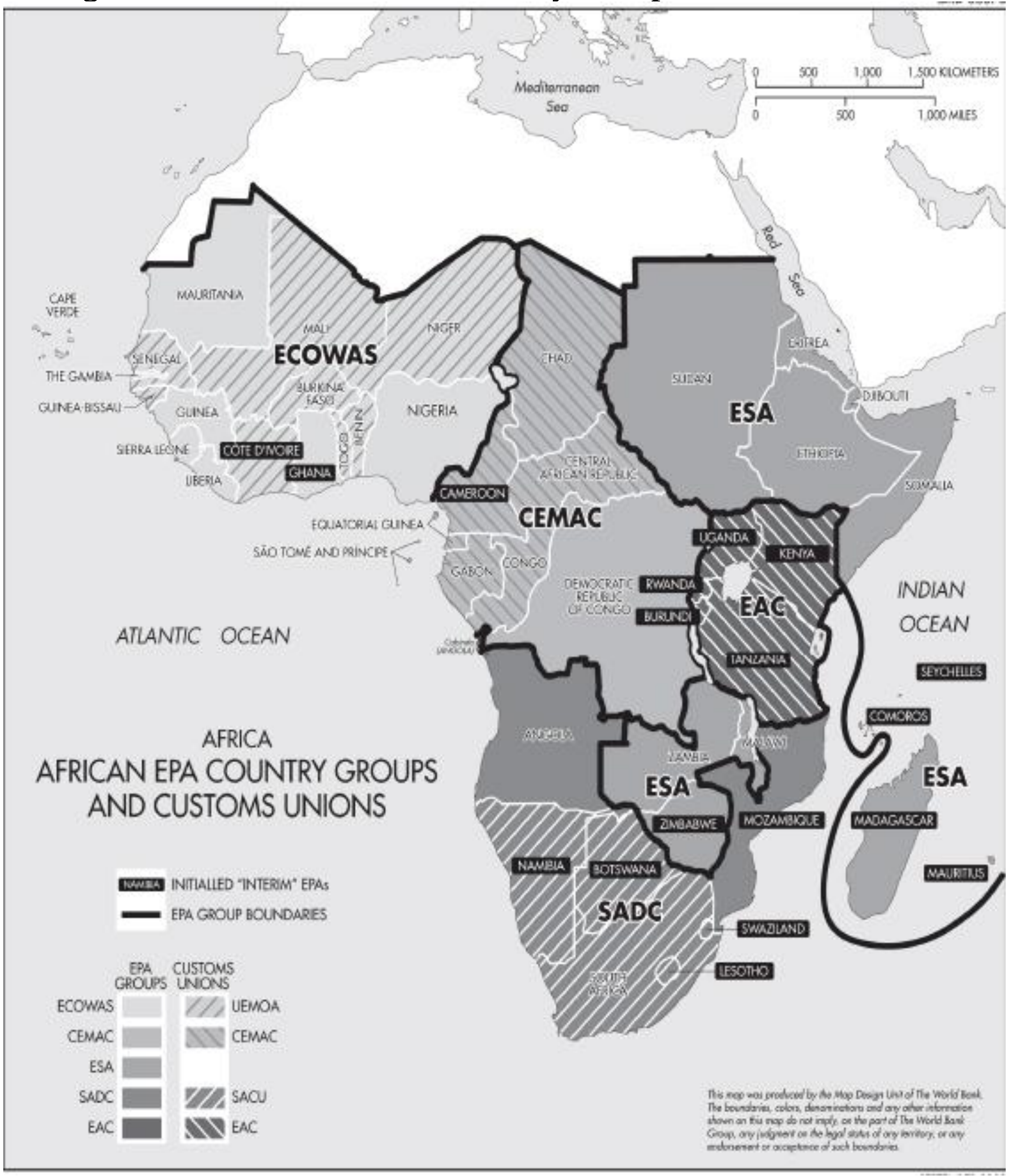
As Stevens (2008:211) notes the assessment of EPAs total implications could last more than a decade. Evidence suggests that full EPAs negotiations will extend over, with some authors even considering that IEPAs could extend forever.

ANNEXES

ANNEX 1

STATISTICS ON ACP COUNTRIES

Figure 15: AFRICAN EPAs Country Groups and Customs Unions



Source: World Bank (2008d)

Figure 16: AFRICAN EPAs Country Groups in Relation to Existing Regional Trade Areas

West Africa: ECOWAS EPA-Group (16)[1]

ECOWAS FTA

Signed EPAs
- Ghana

Not signing EPAs
- Cape Verde
- Gambia (L)[2]
- Guinea (L)
- Liberia (L)
- Nigeria
- Sierra Leone (L)

UEMOA

Signed EPAs
- Cote d'Ivoire

Not signing EPAs
- Benin (L)
- Burkina Faso (L)
- Guinea-Bissau (L)
- Mali (L)
- Niger (L)
- Senegal (L)
- Togo (L)

Other West Africa

Not signing EPAs
- Mauritania (L)

Central Africa: CEMAC-EPA Group (8)

CEMAC Customs Union

Signed EPAs
- Cameroon

Not signing EPAs
- Central African Republic (L)
- Chad (L)
- Republic of Congo
- Gabon
- Equatorial Guinea (L)

Other Central Africa

Not signing EPAs
- Sao Tome and Principe (L)
- D.R. Congo (L)

Eastern and Southern Africa: ESA EPA-Group (11)

ESA (COMESA)[3]

Signed EPAs
- Comoros (L)
- Madagascar (L)
- Mauritius
- Seychelles
- Zimbabwe

Not signing EPAs[4]
- Djibouti (L)
- Eritrea (L)
- Ethiopia (L)
- Malawi (L)
- Sudan (L)
- Zambia (L)

Eastern and Southern Africa: EAC EPA-Group (5)

EAC

Signed EPAs
- Kenya
- Rwanda (L)
- Uganda (L)
- Burundi (L)
- Tanzania (L)

Southern Africa: SADC EPA Group(7)

SADC[5]

Signed EPAs
- Mozambique (L)

Not signing EPAs
- Angola (L)

SACU

Signed EPAs
- Botswana
- Lesotho (L)
- Namibia
- Swaziland

Not signing EPAs
- South Africa[6]

[1] Number of countries in EPA-Group. [2] "(L)" denotes a Least Developed Country. [3] Other COMESA members not participating in the ESA EPA group: Angola (L), Egypt, Libya, Namibia, Swaziland, D.R. Congo (L). [4] Somalia (the 48th country in SSA) is not participating in EPA negotiations but, as an LDC, is eligible for the EU's EBA program. [5] Other SADC members not participating in the SADC EPA group: D.R. Congo (L), Madagascar (L), Malawi (L), Mauritius, Seychelles, Zambia (L), Zimbabwe. [6] South Africa has an existing free trade agreement with the EU -- the Trade Development and Cooperation Agreement (TDCA). **NOTE:** These classifications reflect the situation as of January 2008.

Source: World Bank (2008d)

ANNEX 2

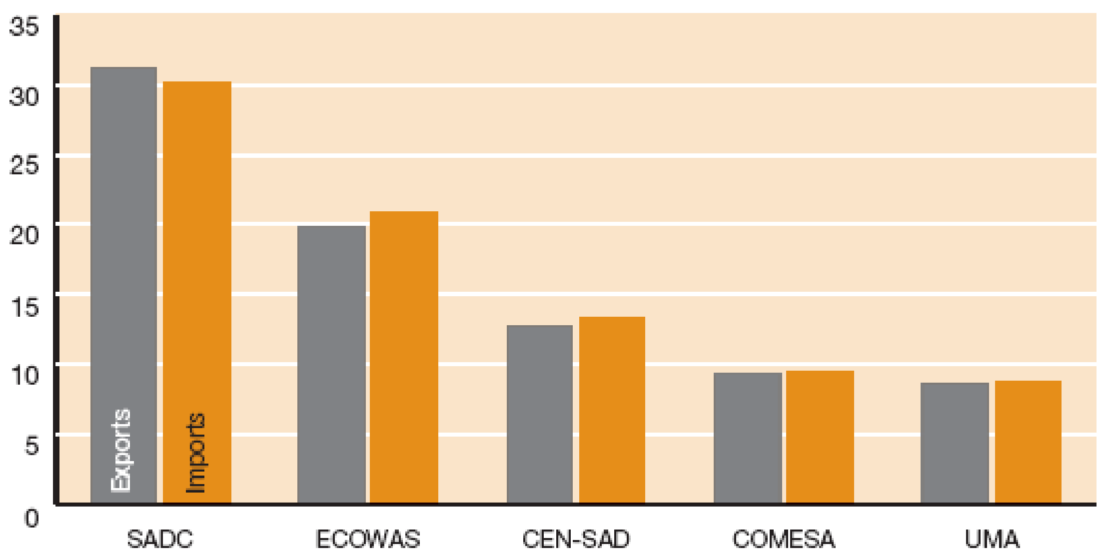
STATISTICS ON AFRICA'S REGIONAL INTEGRATION

Table 22: Share of Intra-regional Trade, average for 1996-2005

	Africa (all regions)	CEMAC	COMESA	ECOWAS	SADC	WAEMU	AMU
Average share of intra-regional trade (1996-2005)	9,56	1,56	6,01	9,17	10,17	12,32	2,58
Average annual intra-regional export growth (1996-2005)	9	7	11	13	7	10	7
Average annual growth of total exports (1996-2005)	12	17	14	13	9	8	14

Source: UNCTAD 2006 (cited in UNECA, 2008b)

Figure 17: Intracommunity Trade as a Share of Total Trade for Selected Regional Economic Communities, 1994-2000 (%)



Source: UNECA (2003), based on data from IMF 2001

Table 23: Overall Direction of Trade (average percentage of exports and imports between 2000 and 2005)

RECs	INTRA REC		REST OF AFRICA (ROA)		ASIA (including China)		CHINA		EUROPEAN UNION (EU)		JAPAN		USA		REST OF THE WORLD (ROW)		WORLD	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
CEMAC	0.9	5.2	2.7	8.9	23.1	6.9	11.6	2.8	36.1	52.4	0.8	1.9	28.9	13.1	7.4	11.6	100	100
CENSAD	12.2	13.0	4.5	6.4	18.9	16.4	6.0	6.1	35.5	39.1	1.9	2.7	8.7	4.9	18.3	17.5	100	100
CEPGL	2.7	1.6	4.7	35.5	17.6	8.3	3.9	3.7	39.8	33.5	6.0	2.4	7.0	4.1	22.2	14.7	100	100
COMESA	8.7	11.1	8.6	17.2	12.6	16.8	6.0	6.2	41.5	26.3	3.0	3.1	8.1	4.7	17.5	20.8	100	100
EAC	12.6	18.7	7.2	9.9	17.3	15.2	3.6	5.1	30.4	24.5	2.0	4.5	3.7	4.8	26.8	22.5	100	100
ECCCAS	0.7	3.8	2.2	14.0	18.8	9.1	10.1	3.1	42.5	50.6	0.8	2.1	23.6	10.7	11.5	9.7	100	100
ECOWAS	13.9	15.8	5.5	5.2	20.7	17.3	4.2	6.8	40.4	40.7	1.7	2.9	7.3	4.3	10.0	13.7	100	100
IGAD	21.5	15.2	5.8	3.6	18.0	21.9	11.8	8.3	19.9	19.7	3.9	3.7	2.8	5.0	28.2	30.9	100	100
IOC	3.0	3.6	1.8	15.1	7.3	21.4	0.8	6.4	63.8	32.9	3.4	2.8	16.6	3.0	4.1	21.1	100	100
MRU	0.4	1.3	3.9	9.4	7.8	25.2	1.4	5.6	68.7	38.7	0.2	7.3	6.5	4.5	12.4	13.6	100	100
SADC	19.9	33.1	2.3	2.6	12.2	14.2	6.3	3.8	40.7	25.2	4.3	2.9	9.4	5.4	11.2	16.7	100	100
UEMOA	11.5	14.9	18.6	13.7	30.8	12.9	6.8	4.9	25.2	40.3	2.0	1.8	3.0	3.0	9.0	13.3	100	100
UMA	2.5	3.1	4.5	1.7	3.0	9.0	1.0	3.9	70.4	60.3	2.8	2.4	5.1	3.9	13.1	19.6	100	100
Average	8.5	10.8	5.6	11.0	16.0	15.0	5.6	5.1	42.7	37.2	2.5	3.1	10.1	5.5	14.8	17.4	100	100

Source: UNECA (2008), compiled from IMF DOT2006, China included in Asia, but separated as a memorandum.

Table 24: Integration Indices for Africa's Regional Economic Communities, 1995-99 (Index 1994=100)

Regional economic community	1995	1996	1997	1998	1999
CEMAC	129.7	135.7	136.0	134.8	128.4
CEN-SAD[a]	122.9	130.8	133.7	121.2	121.0
CEPGL	90.6	89.5	93.7	91.2	86.6
COMESA	110.1	123.0	125.2	127.2	119.4
EAC	114.7	120.3	118.5	120.5	119.2
ECCAS	124.6	128.1	132.0	126.8	121.7
ECOWAS	117.2	130.8	130.3	136.6	133.9
IGAD	113.0	114.1	120.8	119.8	119.7
IOC	116.2	126.2	118.3	123.8	109.6
MRU	90.2	96.4	119.3	109.3	117.1
SADC	115.6	131.5	131.0	137.2	136.9
UEMOA	117.4	132.3	133.4	138.6	137.1
UMA	101.4	100.4	101.3	99.5	100.4
Simple average	112.6	119.9	122.6	122.0	119.3
Weighted average	114.9	124.7	126.1	125.5	123.6

Note: *Given the significant component of the trade sector in the calculation of the indices, SACU was excluded from this table. SACU's published trade data are usually aggregated and cannot be used for the calculations.*

a. CEN-SAD was formed recently and its results reflect primarily actions of members participating in overlapping regional economic communities.

Source: UNECA (2003)

Table 25: Integration Indices for Africa by Sector, 1995-99 (Index 1994=100)

Sector	1995	1996	1997	1998	1999
Communications	110.9	129.9	152.9	157.2	157.2
Trade	127.9	149.0	147.1	138.2	139.6
Transport	118.7	120.1	126.6	129.9	127.3
Money and finance	104.9	115.3	118.6	116.7	124.4
Agriculture	102.3	110.4	108.2	111.3	109.9
Manufacturing	108.7	110.3	110.5	111.0	100.2
Human resources and labour markets	115.4	121.2	122.1	119.8	105.6
Energy	90.6	93.7	94.9	97.9	96.4

Note: *Data are weighted by GDP.*

Source: UNECA (2003)

ANNEX 3

STATISTICS ON INFRAESTRUCTURE AND TRANSPORT COSTS IN AFRICA

Table 26: Transit Costs in Selected African Countries and World Groups, 2001

Country or country group	Transport and insurance payments (US$ millions)	Exports of goods and services (US$ millions)	Transit costs as a share of the value of exports (%)
Botswana	230	3,030	8
Burkina Faso	70	272	26
Burundi	23	96	24
Central African Republic	59	179	33
Chad	99	190	52
Ethiopia	240	979	25
Lesotho	43	283	15
Malawi	214	385	56
Mali	229	644	36
Rwanda	70	144	49
Swaziland	30	1,085	3
Uganda	269	757	36
Zambia	216	1,255	17
Zimbabwe	379	2,344	16
Landlocked countries	3,706	26,314	14
Least developed countries	4,277	24,840	17
Developing countries	109,055	1,268,581	9

Source: UNECA (2003). Compiled from UNCTAD data

Table 27: Physical Integration in Selected Regional Economic Communities in Africa (2000)

Regional economic community	Trans-African Highway Total links (km)	Missing links (km)	Missing links as a share of total (%)
COMESA	15,723	2,695	17
EAC	3,841	523	14
ECCAS	10,650	4,953	47
ECOWAS	10,578	2,970	28
IGAD	8,716	2,423	28
SADC	11,454	2,136	19
UMA	5,923	1,110	21

Source: UNECA (2003)

ANNEX 4

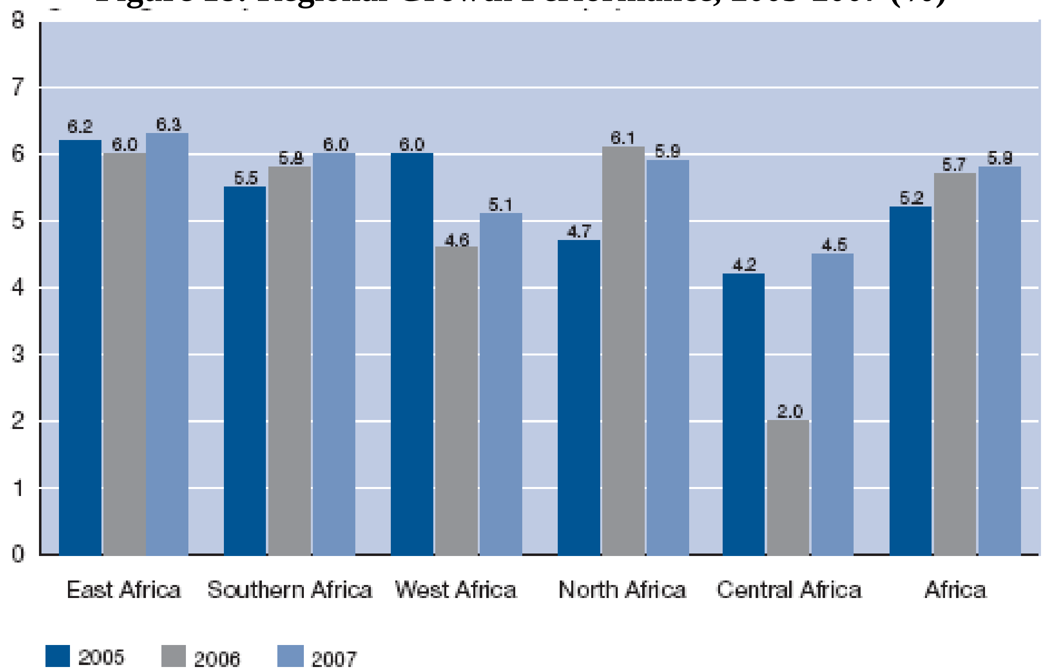
STATISTICS ON AFRICA'S TRADE PERFORMANCE

Table 28: Comparative Merchandise Export Performance, World and Africa, 2000-2005 (US$ billion)

Region	Exports	2000	2001	2002	2003	2004	2005	Yearly average 2000-2005
World	Exports in current prices	6451.0	6184.0	6484.0	7752.0	9191.0	10393.0	7712.5
	Growth rate (%)		-4.1	4.8	16.8	21.4	13.1	10.4
Total Africa	Exports in current prices	147.1	137.4	140.6	176.5	230.0	295.8	187.9
	Growth rate (%)		-6.6	2.3	25.5	30.3	28.6	16.0
Republic of South Africa	Exports in current prices	30.0	29.3	29.7	36.5	46.0	51.9	37.2
	Growth rate (%)		-2.4	1.6	22.7	26.2	12.7	12.2
North Africa	Exports in current prices	52.7	48.0	48.1	60.8	79.4	106.1	65.8
	Growth rate (%)		-8.9	0.1	26.4	30.7	33.5	16.4
Sub-Saharan Africa oil- exporting countries	Exports in current prices	37.1	32.1	32.4	43.6	62.4	91.6	49.8
	Growth rate (%)		-8.9	0.1	26.4	30.7	33.5	22.4
Sub-Saharan Africa non-oil-exporting countries	Exports in current prices	27.2	27.7	30.1	35.5	41.9	45.9	34.7
	Growth rate (%)		2.2	8.4	18.1	17.9	9.6	11.2

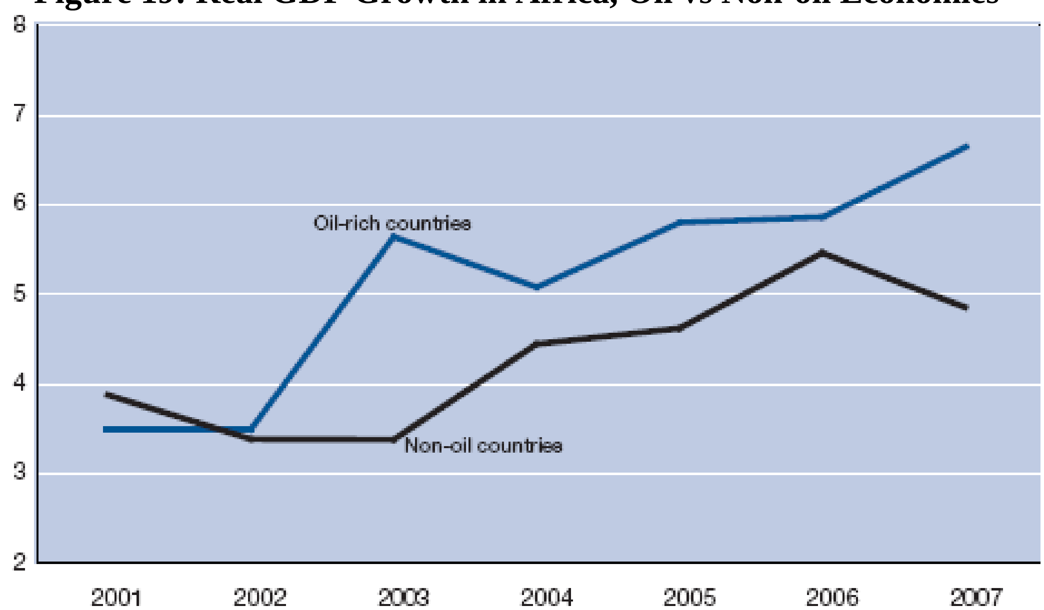
Source: UNECA (2007). Compiled from WTO online data, November 2006.

Figure 18: Regional Growth Performance, 2005-2007 (%)



Source: UN-DESA. UNECA (2008b)

Figure 19: Real GDP Growth in Africa, Oil vs Non-oil Economies



Source: UN-DESA (cited in UNECA, 2008b)

Table 29: Agriculture Share in GDP

	2002	2003	2004	2005	2006
North Africa	15.8	16.3	15.1	13.4	13.6
West Africa	29.6	27.1	21.0	31.6	32.6
Central Africa	26.7	27.2	27.3	20.8	22.1
East Africa	32.6	32.4	32.9	26.7	26.7
Southern Africa	8.3	8.0	7.8	8.9	8.7
Total Africa	16.4	16.3	14.9	14.0	13.8

Source: WDI 2007. (cited in UNECA, 2008b)

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